GLAS CYMRU

20

EARNING THE TRUST
OF OUR CUSTOMERS,
EVERY DAY, AND FOR
GENERATIONS TO COME

ANNUAL REPORT & ACCOUNTS

2020-2021

20 YEARS

OF CUSTOMER LED SUCCESS

Glas Cymru is unique in the water industry in England and Wales.

Formed in 2000, it was created to acquire and run, on a not-for-shareholder dividend basis, Dŵr Cymru Cyfyngedig (referred to throughout this report as Welsh Water), the regulated water and wastewater provider for most of Wales and neighbouring parts of England.

Glas Cymru's unique corporate structure was formed in the belief that this was a better way to finance and run a water company, with improved outcomes for our customers and the communities that Welsh Water serves.

HOW DOES OUR MODEL WORK?

Without shareholders, our single focus is to act in the best interests of customers. Our Members fulfil an important governance role but have no financial stake in the business.

With no need to pay dividends outside the Group, any money we make goes directly back into the business. We have used this Return of Value to customers in the past to help keep bills lower; provide financial support to customers who struggle to pay their water bills; and to invest to improve services for customers.

We also look to the longer term and invest to ensure we can continue to provide high-quality services to benefit future generations of customers.

Our model means that we can offer secure, long-term credit quality to investors, allowing us to raise finance at the cheapest possible cost.

2001-

2001
Glas Cymru secures ownership of Welsh Water after a £1.9 billion bond issue

Glas Cymru deal named world's top deal of 2001

2006
Welsh Water marks £1 billion investment in wastewater network at Billion Pound Beach Event at Barry Island

2009
Welsh Water confirms £1.5 billion investment over five years to 2015

2011
Welsh Water invests £40 million in its first advanced anaerobic digestion facility at Cardiff Wastewater Treatment Works

2001

2003
Approximately 150 colleagues working directly for Welsh Water

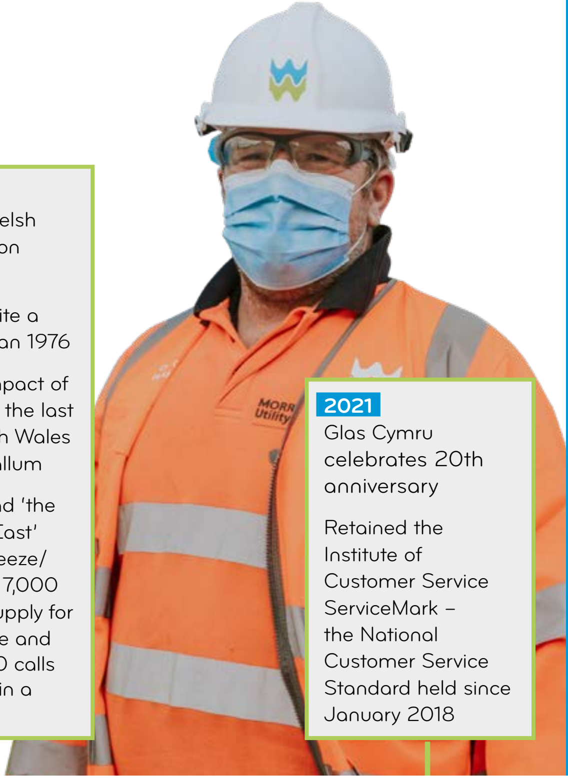
2004
Nigel Annett, co-founder Glas Cymru, appointed Managing Director

2010
Over 1,600 colleagues in-sourced to Welsh Water with the main operating and maintenance contracts being brought in-house to reduce cost and improve customer focus

During a significant freeze/thaw event Welsh Water has to deal with a record number of bursts on its drinking water network – nearly 200 in one day – and 5,000 calls from customers reporting problems on Boxing Day

2013
Chris Jones, co-founder Glas Cymru, appointed Chief Executive following Nigel Annett's retirement

2021



2016
Welsh Water acquires Llanishen and Lisvane Reservoirs in Cardiff to develop a fifth visitor centre in North Cardiff and safeguard these water sources for potential economic development in the capital city

Welsh Water changes its corporate structure to enable it to fund commercial activities such as trade effluent services and the food waste-to-energy plant in Cardiff, in order to benefit its customers

2017
Over 20,000 customers 'Have their Say' in summer consultation on long-term priorities

'Most Recommended' water company in 2017 Moneywise Home Finances Awards

The Group acquires the food waste-to-energy plant adjacent to Cardiff Wastewater Treatment works, to process food waste from Cardiff and the Vale of Glamorgan

2018
Publication of Welsh Water 2050 vision

No water supply restrictions despite a drier summer than 1976

Managed the impact of worst flooding in the last 50 years in south Wales due to Storm Callum

Storm Emma and 'the Beast from the East' bring extreme freeze/thaw conditions, 7,000 customers off-supply for 24 hours or more and more than 3,000 calls from customers in a single day

2019
New statement of Corporate Purpose incorporated in the Company's constitution

Action to combat climate change results in 65% reduction compared to a total carbon footprint (operational & embedded) of 335kton in 2010-11

2020
Highest ever customer trust rating for second consecutive year

Rated first in the sector for new C-Mex customer satisfaction measure

Welsh Water achieved annual leakage target for fifth consecutive year

Following a 40-year career with the business, Peter Perry appointed Chief Executive on Chris Jones' retirement

Led the water industry's preparations for EU Exit through the sector-wide Platinum Incident Management Group

Dealt with the impacts of Covid-19 including mobilised home-working arrangements for more than 2,000 colleagues due to the pandemic, while maintaining service standards for our customers

Launched campaign to support Welsh Government's proposal to ban single-use plastic

2021
Glas Cymru celebrates 20th anniversary

Retained the Institute of Customer Service ServiceMark – the National Customer Service Standard held since January 2018

2021

OUR ACHIEVEMENTS

Our not-for-shareholder operating model and customer-focused business purpose has helped secure industry-leading levels of service by:

- keeping average household bill price rises at or below the RPI rate of inflation for 12 consecutive years.
- providing financial support to over 143,000 low income customers to pay their water bills every year.
- consistently generating amongst the highest level of trust and satisfaction in the sector expressed by our customers for our services.
- reducing our gearing from 93% in 2001 to 60% as at 31 March 2021. Welsh Water is amongst those companies in the sector with the lowest gearing.
- £1.9 billion invested in assets over the period 2015-20, and a further £1.8 billion investment planned for 2020-25.

INVESTING FOR FUTURE GENERATIONS

1 BY CONSIDERING THE CRITICAL FUTURE CHALLENGES . . .

- DEMOGRAPHIC CHANGE
- CHANGE IN CUSTOMER EXPECTATIONS
- CLIMATE CHANGE
- CHANGES TO THE STRUCTURE OF THE ECONOMY
- ENVIRONMENTAL CHANGE
- POLICY AND REGULATORY CHANGE
- PROTECTING ESSENTIAL INFRASTRUCTURE
- PROTECTING PUBLIC HEALTH

> READ MORE ABOUT OUR MARKETS AND FUTURE CHALLENGES ON PAGES 22 TO 24

2 AND BY TAKING INTO ACCOUNT THE VIEWS OF OUR CUSTOMERS AND OTHER STAKEHOLDERS . . .

- CUSTOMERS
- OUR PEOPLE
- ENVIRONMENT
- INVESTORS
- COMMUNITIES
- SUPPLIERS
- OUR MEMBERS
- OUR REGULATORS AND POLICY MAKERS

> READ MORE ABOUT OUR ENGAGEMENT WITH OUR STAKEHOLDERS ON PAGES 39 TO 46

3

. . . WE HAVE DEVELOPED THE STRATEGIES REQUIRED TO BUILD A RESILIENT AND SUSTAINABLE WATER COMPANY FOR THE BENEFIT OF FUTURE GENERATIONS.

Welsh Water has a long-term vision for the future – Welsh Water 2050. This forms the roadmap for the next 30 years of the business, and sets out the principal drivers that would influence our plans for each five-year price control period (referred to as Asset Management Periods (or AMPs) in the industry).

CUSTOMERS

▼

VISION

▼

WELSH WATER 2050 AND WELLBEING COMMITMENTS

▼

REGULATORY PRICE REVIEWS

▼ ▼ ▼

AMP7 AMP8 AMP9

> READ MORE ABOUT OUR STRATEGY AND BOTH OUR LONG AND MEDIUM-TERM PLANNING ON PAGES 25 TO 38

GLAS CYMRU

ANNUAL REPORT AND ACCOUNTS 2020-2021

Welsh Water has been owned by Glas Cymru since 2001. Glas Cymru has no shareholders and therefore works solely to enhance the interests of the customers and communities that it serves.

We provide a vital public service to around 3.1 million people in Wales and neighbouring parts of England. We provide our customers with clean water that is safe to drink and take their used water away, treating it so that it can be returned to the environment. We recycle the organic material resulting from the wastewater treatment process, generating valuable electricity and gas, and minimising the impact on the environment. Many of our customers are businesses, hospitals and schools that depend on a reliable supply of water, and developers with whom we work to provide the infrastructure required to support the economic development across our supply area.

OPERATIONAL HIGHLIGHTS 2020-21

See Our Performance Report on page 56 for more detail.

HEALTH & SAFETY

- 6 RIDDORs (Serious Safety Incidents) (2019-20: 8)
- 15 Lost Time Injuries (LTIs) (2019-20: 28)
- 60% LTIs returned to work in less than 7 days (2019-20: 70%)

TREATING WASTEWATER

- 99.66% compliance at Wastewater Treatment Works (2019-20: 98.18%)
- Provisional figures for pollution incidents show performance has improved from 26.2 (2019-20) to 21.46 in 2020-21

FINANCING

- Junior Bond issue – we raised £300 million at a fixed rate of 2.375% – meaning the Group is fully funded until 2025
- Gearing remains on track with the Board's target of around 60%

PROVIDING CLEAN DRINKING WATER

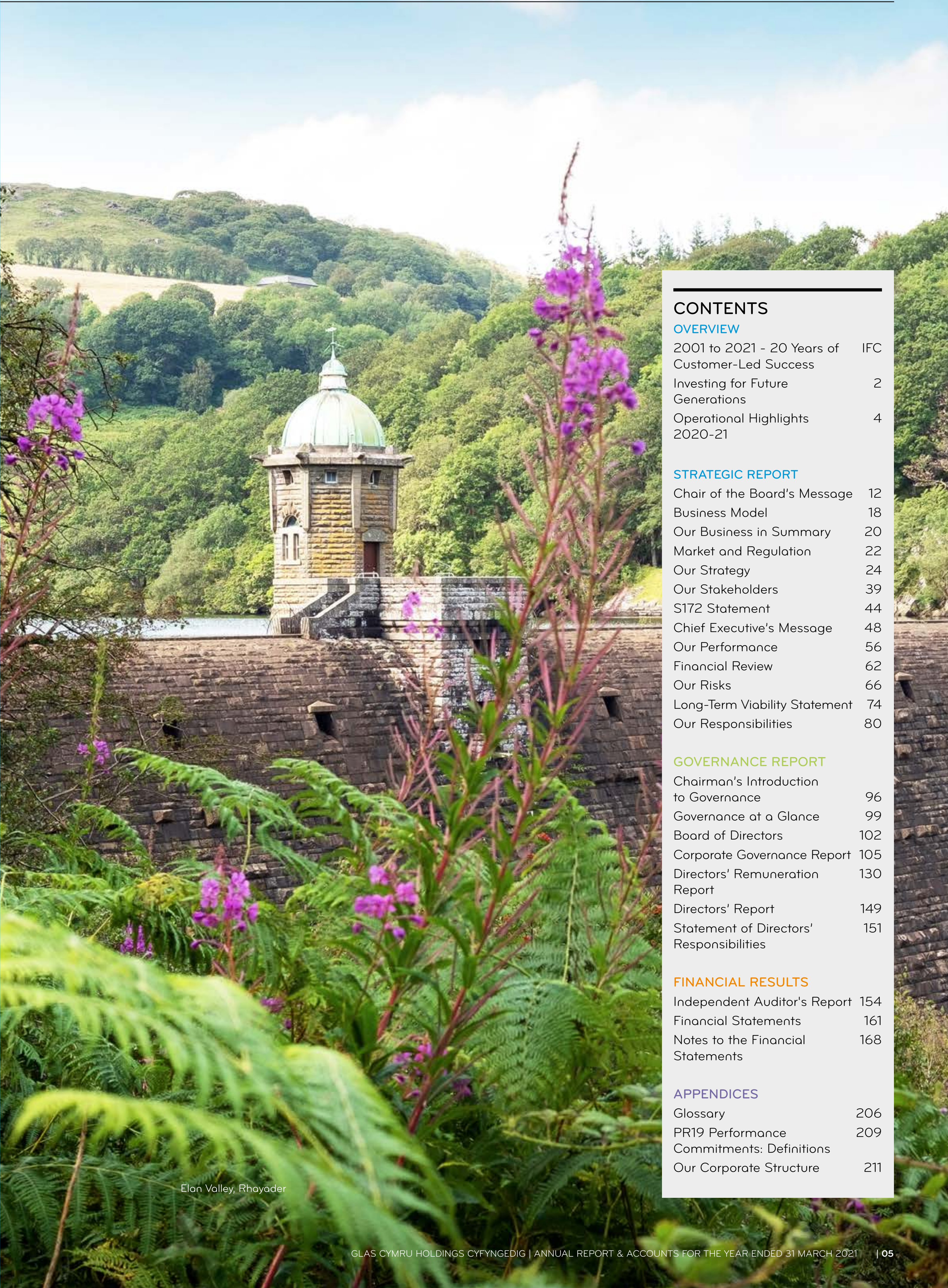
- Acceptability of Water – we missed this target, in part due to increased consumption during lockdowns, but also the impact of network issues such as burst mains
- Replacement of lead pipes – we are on target to replace 7,000 lead supply pipes by 2025
- Interruptions to supply – we improved our performance in relation to "customer minutes lost" from 17.46 in 2019-20 to 11.05 in 2020-21

MINIMISING OUR IMPACT ON THE ENVIRONMENT

- Total gross operational carbon emissions continued to fall in 2020-21
- Internal Flooding incidents – we missed this target due to a flooding incident caused by storms in Newport in December. This will be an area of focus for 2021-22. We improved our performance for External Flooding incidents
- Leakage – achieved our annual target for the sixth successive year

CUSTOMER SERVICE

- Ofwat's C-MeX measure – Rated fourth in the Sector for Customer Satisfaction
- Business Customer Satisfaction score – we achieved a score of 4.4 out of 5
- Over 340,000 vulnerable customers temporarily added to our Priority Services Register to receive support during the pandemic
- More than 130,000 customers receiving financial support to assist in paying their water bills



Elan Valley, Rhayader

CONTENTS

OUR CULTURE

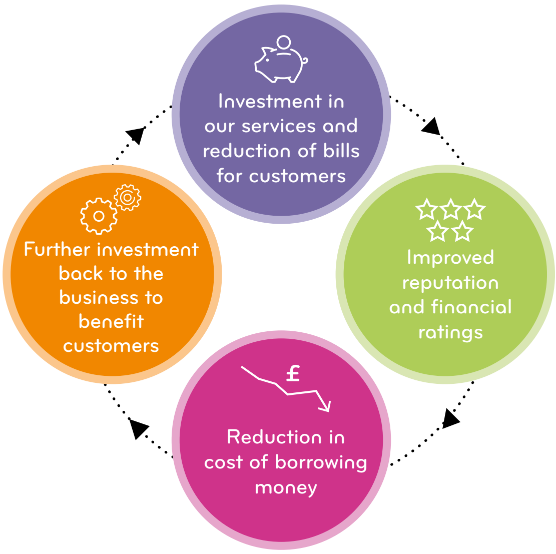
WHO WE ARE

We are the sixth largest company providing water and sewerage services in England and Wales, trusted to supply 3.1 million people with essential services throughout our supply area (see map showing our supply area boundaries on page 20). We supply water to most of Wales, and parts of Herefordshire. We treat wastewater for customers in most of Wales and parts of Chester and Deeside.

References in this report to "Group" refer to the Glas Cymru Group of companies of which Glas Cymru Holdings Cyfyngedig is the ultimate holding company. References to the "Company" refer to the statutory undertaker appointed to provide water and sewerage services, Dŵr Cymru Cyfyngedig, also referred to as Welsh Water in this report. For details on our corporate structure, please see page 211.

THE GLAS MODEL

By improving performance and investing for the long-term, we can maintain our reputation and access borrowing at lower cost. We don't have shareholders, so any money we make is reinvested in the business to benefit customers, not paid in dividends to shareholders.



LONG-TERM ADVANTAGES

We believe that our Glas Model, the long-term financing on which it is based, and our clear purpose give us five important advantages, particularly in the longer-term:

- ✓ **Earning the trust of our customers** Our customers know that we are focused on providing excellent customer service to them at the best value for money
- ✓ **A supportive and focused workforce** The ability to recruit and retain high quality people in our business, attracted by its strong sense of moral purpose and the importance of the job we do
- ✓ **Our purpose and vision at the centre** A strong corporate culture that reflects that purpose and which helps to motivate and guide our people
- ✓ **Ability to take the long-term view** A longer-term planning horizon than most businesses are allowed – enabling us to invest in our assets, systems and people for the optimal long-term result
- ✓ **The benefits of our low-risk financing structure** Secure access to long-term, low-cost finance from bond investors who are attracted to the low-risk, single-purpose nature of our business, entrenched through the strong commercial disciplines in our corporate and financing structures

OUR PURPOSE

Our company purpose is simple. It is to provide high-quality and better-value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.

OUR VISION

Our vision is "to earn the trust of our customers every day". This focus helps us achieve our purpose.

OUR VALUES

Our values create a culture that helps us do our best for our customers.

OUR CULTURE

We take great pride in the work that we do and the services that we provide to our customers. Our culture focuses on delivering value and the desired outcomes for our customers and the environment, striving to do a better job for them through learning, innovation, embracing change and the sharing of best practice with other organisations.

To help us achieve this, we have a clearly defined plan which is driven by measurable targets. However, we also rely on our people, who have the highest levels of motivation, engagement and desire to 'do the right thing'. We recognise the value of diversity of thinking within our organisation, and actively seek to promote and encourage a more diverse workforce, attracting the best people from all parts of the population we serve. We aim to foster an inclusive culture where everyone can be themselves, develop to their full potential and contribute to the success of the Company, so as to enjoy a healthy and rewarding career.

See pages 8 and 9 and 55 and 56 to see examples of our culture in action and how we are supporting our stakeholders during Covid-19.

OUR STRATEGY

Our Welsh Water 2050 vision tackles the long-term challenges which will affect our business, our services to customers, and the communities that we support. Protecting our water resources and developing innovative solutions to reduce our energy consumption and minimise our effect on the environment by reducing chemical usage are key long-term goals for us. We are seeking sustainable ways of increasing the resilience of our assets and ensuring we can continue to provide high-quality drinking water and treat waste water for future generations of customers.

OUR CULTURE

CONTINUOUS IMPROVEMENT

Our focus on achieving excellence in everything we do means that we are open to innovation and change. The case studies below are two examples of where we are innovating to improve customer service and efficiency.

COG MOORS WASTEWATER TREATMENT WORKS

As a company, Welsh Water is one of the largest energy users in Wales. We currently generate 23% of our own energy needs through wind, hydro, solar and advance anaerobic digestion (AAD), and plan to be 35% self-sufficient by 2025.

To help us achieve this, we have invested over £200 million into AAD plants across Wales and our latest investment involves spending £50 million on installing a new AAD plant in at our Cog Moors Treatment Works in the Vale of Glamorgan.

The AAD facility will enhance the existing Anaerobic Digestion plant at the site, enabling more gas – known as biogas – to be recovered from the waste. The biogas recovered will then be used in engines to generate the electricity.

Once completed, the AAD will generate enough energy to power the works which will make it an energy neutral site. The energy it will produce would be the same as that needed to power 4,800 homes.

TRANSFORMATION PROGRAMME

Within the Household Customer Service team, the AMP7 transformation programme, Retail 2025, is improving the service we deliver to our customers and is modernising the working experience for our colleagues. The Digital programme, in particular, has made excellent progress, by improving processes through digitisation and automation. This saves us both colleague time and money and allows our customers to self-serve via their channel of choice.

Some achievements in the last year include: releasing a fully redesigned website, launching a new My Account; and going live with our new Chatbot, named Lili. In delivering these changes we have embraced the concept of User Centric Design, involving our customers at all stages of development. As a result of this approach, we have delivered a step change in the experience of our customers when they communicate with Welsh Water, including:

- A 69% increase in customer self-service through the use of our web forms
- 97% of customers rating their digital experience as good or great
- Automated online digital billing services increasing to 60%
- 20% of our customer base signing up for My Account, an increase of 130,000 in one year

IMPROVING THE WELLBEING OF CUSTOMERS AND COMMUNITIES WE SERVE, BOTH NOW AND FOR GENERATIONS TO COME

STRATEGIC REPORT

THIS STRATEGIC REPORT DOCUMENTS OUR PERFORMANCE OVER THE YEAR, THE RISKS WE FACE AND HOW WE MITIGATE THEM, AND OUR FUTURE VISION AND STRATEGY.

CHAIR OF THE BOARD'S MESSAGE

> “THIS YEAR, MORE THAN IN ANY OTHER, THERE HAS BEEN A FANTASTIC RESPONSE FROM OUR PEOPLE TO THE SITUATION WITH WHICH THEY HAVE HAD TO CONTEND.”

440,000

CUSTOMERS ON PRIORITY SERVICES REGISTER

127,000

CUSTOMERS BENEFITING FROM SOCIAL TARIFFS (OVER 143,000 IN TOTAL RECEIVING ASSISTANCE TO PAY BILLS)

37%

REDUCTION IN CUSTOMER MINUTES LOST (INTERRUPTIONS TO SUPPLY)

THANK YOU SO MUCH

I shall not be alone amongst Chairs in writing that this has been an extraordinary last 12 months, a period that I hope not to see again in my lifetime. I am, however, very fortunate to be amongst that narrower group of Chairs who is able to write that their business is in very good shape despite all the challenges that have been thrown at it. That I can do so is testament to a fantastic response from our people to the situation with which they have had to contend. We owe them a huge debt of gratitude for once again going the extra mile in so many cases despite all the personal pressures they have had to contend with as a consequence of the pandemic – home schooling, illness of self, family and friends, bereavement of those close to them, social isolation – we all individually understand these too well. Thank you so much.

Not only has our business had to navigate the pandemic but also ensure that it was protected from whatever disruption might flow from Brexit, in particular any risk to our supply chain of chemicals, equipment, and spare parts that are imported from Europe. In this Welsh Water provided leadership to the whole of the water sector in England and Wales, with our Chief Executive, Peter Perry, chairing the industry's Platinum group that interacted with governments, regulators, suppliers and their logistics providers. Our Procurement team at Welsh Water provided invaluable modelling of the industry's whole supply position, supporting the development of the contingency planning to ensure that whatever befell on 31 December 2020, the industry was prepared.

In his Chief Executive's Report Peter Perry writes of the strong results that were achieved in 2020 against our principal operational measures covering pollution from our assets, compliance with our waste water permits, the acceptability of drinking water, and leakage. At the same time the customer satisfaction survey conducted by our regulator Ofwat, titled C-MeX, placed Welsh Water in fourth place despite the challenges both to effective service and the rapid resolution of supply problems presented by the social distancing requirements of the pandemic. Achieving our targets that were set pre-pandemic is again a great tribute to what our teams across the business have delivered. Once again, thank you so much.

I recognise, however, that such achievement comes at a cost. As a Board we are very conscious that the past 12 months has left the risk of people becoming physically and emotionally drained. We have undertaken quarterly wellbeing surveys to determine how everyone is feeling and these have returned high levels of employee satisfaction, in particular as to the arrangements the Company has made to help its people through the pandemic, and the way in which Peter and his leadership team have communicated regularly and comprehensively with everyone. For those finding things particularly stressful we now have


Elan Valley, Rhayader

WE CAN ALL PLAY A PART...IN REDUCING THE PRESSURE ON CLIMATE CHANGE AND OFFSETTING ITS IMPACT.

CHAIR OF THE BOARD'S MESSAGE

29 Wellbeing Champions with the training to support colleagues in maintaining positive mental health and wellbeing. They work alongside the Employee Assistance Programme that is available to all employees and their families providing both information and also free access to counselling sessions. It has, therefore, been particularly reassuring to see levels of non-Covid related sickness absence materially below both target and the previous year during the pandemic.

OUR ENVIRONMENT

Last year I wrote of the devastation wreaked by Storms Ciara and Dennis. We have, however, to recognise that such extreme weather will become an ever more frequent occurrence whilst global temperatures continue to rise. In August last year we experienced a week-long period of electrical storms with mid-Wales and Hereford worst affected by multiple mains power interruptions. These were accompanied by period of intense rainfall in discrete areas – Aberystwyth was one of the worst affected – and were followed by storms Ellen and Francis with further significant localised flooding and widespread loss of power. Then just before Christmas Storm Bella hit Cardiff, Newport and the Vale of Glamorgan, our teams responding to 149 incidents, the worst affected being Newport. The new year started with Storm Christoph hitting North Wales especially, with widespread disruption caused by record flood levels and customer contact exceeding what we had experienced with Storm Dennis in 2020.

All these events require our teams to turn out, often in appalling conditions, to seek to alleviate the suffering and damage experienced by our customers and to protect, and where necessary restore, our water treatment plants and sewage works. Every incident has to be very carefully managed, in conjunction with emergency responders from all disciplines, to ensure above all else the health and safety of our people and our customers whilst at the same time recovering the situation as rapidly as is possible. This in turn places huge demands on our operational management and their teams. Once again, thank you so much.

The increasing intensity of rainfall caused by climate change is also having a material impact on our sewerage system. As our network of 36,782kms of sewers has developed over the centuries, past generations have used them not only to dispose of household waste, but also to collect rainwater from roofs and in some cases to act as conduits for highway run-off and small water courses. Because of this, the volume of water flowing through our sewers is highly dependent on the weather and has grown markedly. Our waste water treatment works, themselves many with a long history, have a design capacity and when this is exceeded there has to be a "release valve" to prevent the whole system flooding the communities it serves: we know from our customers that sewer flooding is understandably the worst failure of our operating standards. This contingency takes the form of Combined Storm Overflows (CSOs) which divert flow from the sewer and/or the treatment works into a nearby watercourse.

We used not to know how often these CSOs operated or for how long: following investment over the last six years we now have telemetry on 90.6% and by 2022 we will be reporting on 97.8% of these. Improving our capacity to handle larger flows involves significant investment and this data allows us to target our expenditure where it will have the greatest impact. Between 2020 and 2025 we plan to invest £765 million on improving our wastewater assets but even this sum is dwarfed by what it would cost to change the way our sewerage system operates and remove completely the need for CSOs: this would be of the order of £10 billion. This is, therefore, a multi-AMP programme for which our Drainage and Wastewater Management Plan sets the direction.

As we start to develop our strategy for the next price control period, AMP8, which begins in 2025, we are reviewing the long-term direction that we mapped out for the business in Welsh Water 2050, itself published in 2018. In just the last three years the full impact on our business of the current trend of the climate emergency has become even clearer. Last September our Board received a sobering presentation from the Chief Executive of the Royal Meteorological Society, warning us that rainfall events would become ever more intense and localised as the warmer atmosphere is able to hold more moisture. With a topography in Wales of mountains rising sharply away from coasts and steep-sided narrow valleys, this intensifies the risk of drainage infrastructure installed long ago being overwhelmed. Whilst much of this infrastructure relates to highway drainage and belongs to local authorities, where it belongs to us we have a medium-term programme of improvement accompanied, where relevant, by short-term mitigation expedients, such as installing pumps in those streets in Newport that are the most susceptible to flooding from our installations. Strategically we need to run scenarios as to what may be the consequences within our supply area of global warming over the next 30 years and develop plans for asset resilience that provide mitigation.

Climate change brings us both too much, and too little, water! Rainfall in April and May last year was below half the long-term average and we had rolled out plans similar to those that navigated us through the drought of 2018. The effect of this was compounded by the impact of Covid-19 on the demand for water

Flooding at Nantgarw, near Cardiff

which was up on normal by 12-15% - households at home rather than at work or school, and increased handwashing. Strategically we have to be prepared for this as well, in particular investing to increase the extent to which our water network is joined up, allowing us to switch supply across catchments to hot spots of demand. This again is a programme for the medium to long-term: in the short-term we have recourse to expedients such as overland "temporary" supply lines from one reservoir to the next.

We all recognise that we can play a part, however small, in reducing the pressure on climate change and offsetting its impact. We can all act to reduce our carbon footprint in our daily lives and reduce our consumption of water – Wales currently has one of the highest levels of per capita consumption in the country. As a company which is both a major employer and consumer of power, as well as one that uses in its assets huge quantities of steel and concrete, we are deeply conscious of the need to innovate to reduce our carbon footprint. This is why we have committed to become carbon neutral by 2040, with plans to reduce total carbon emissions by 90% by 2030. Between now and 2040 we plan to find innovative ways to harness nature to support our environmental plans through such as peatland restoration, wetland treatment, and catchment management.

We have recently established a new committee of the Board – the Environmental, Social and Governance Committee – to have detailed oversight of the strategy that we have developed to achieve these objectives, and of the measurement and reporting of our progress against it.

We have now completed our programme of investing in Advanced Anaerobic Digestion (AAD) of our waste sludge: by adding the newly commissioned Cog Moors plant in south Wales we now have the full capacity we need across our supply area. Our four AAD sites give us the potential to generate sufficient biogas to power 20,000 homes, whilst we are also exploring the potential to convert the biogas into hydrogen, to decarbonise our fleet. 23% of our energy needs are now generated through wind, hydro, solar and AAD, with the rest procured from 100% renewable energy resources.

17%

AVERAGE BILL REDUCTION BETWEEN 2010 AND 2020

80%

REDUCTION IN CARBON FOOTPRINT SINCE 2010

12-15%

INCREASE IN CONSUMPTION DURING FIRST COVID-19 LOCKDOWN

CHAIR OF THE BOARD'S MESSAGE

LONG-TERM PLANNING

Having only begun the new five year price control period last April, it is hard to believe that we are already turning our minds to what we want to achieve during the next, but such are the joys of being a regulated monopoly! As I wrote last year, whilst we will be able during the current AMP7 to make some progress in improving the resilience of our assets for future generations, we will not have the funding allowed by Ofwat to get as far as we had hoped towards achieving our Welsh Water 2050 vision. As is evident from what I have written about the environment, the extent and pace of required change has increased even in the short period since we put together our plans for AMP7. It is, therefore, critical that we use the next couple of years to compose the necessary plans to achieve this change over AMP8 and beyond, and to develop the evidence that we will need to substantiate to our regulators the correctness and efficacy of those plans to make our assets resilient for future generations. We need to chart a well defined path towards the objectives that we set out in Welsh Water 2050 and demonstrate that what we plan to achieve in AMP8 to deliver the necessary long-term operational resilience is appropriately timed on that path and of the right scale and nature.

In anticipation of creating those plans and the necessary evidence base we are investing significantly in our asset management capabilities and resource. The vision of our Asset Planning team is to be recognised as a global leader in asset investment planning and outcome-based delivery. Applying industry leading risk management, the team will build upon our existing asset resilience framework to understand asset-specific shortfalls against what we assess we need to deliver to our customers to achieve the standard of service to which we aspire, and then create evidence-based solutions. The replacement, involving both upgrading and resizing of assets in our industry typically occurs only periodically and at scale – as an example the new water treatment works that we opened last year at Bryn Cowlyd to serve the area around Conwy replaced works that had been constructed in 1976 at a cost of £38 million. Such investments require planning over the long term – an output from the asset planning on which we are embarked will be a rolling 15-year asset replacement schedule. That this is the right timeframe is evidenced by the new water treatment works that is being planned to serve the region around Merthyr Tydfil. This will replace three existing treatment works, two of which were first built in the 1920s, which have limited capacity to expand their output. We began to plan for this in AMP6, obtained Ofwat's agreement to the project go-ahead as part of the AMP7 Final Determination, and will deliver this across AMP7 and AMP8 with a projected operational start in 2030.

STRIKING THE RIGHT BALANCE

We are only too conscious that all investment in resilience has to be paid for. We are fortunate to have credit ratings amongst the highest in our sector, which gives us excellent access to funding - as demonstrated by our recent launch of a £300 million bond and at very fine terms. The interest


Bryn Cowlyd Water Treatment Works, Conwy

cost of this debt together with all running costs has, however, to be serviced and this comes from the bills we levy for the services we provide to households and businesses. Even before the impact of the pandemic, we recognised the affordability issues faced by a significant number of our customers – our social tariffs are helping around 127,000 customers with their bills, materially more than any other water company. The issue of affordability is only likely to become greater following the effect of Covid-19 on businesses and, therefore, jobs. We are proud that by the end of the current price control in 2025, average household bills will be 6% lower in real terms than at its beginning in 2020, which itself saw bills 17% lower in real terms than 10 years previously. Achieving, therefore, the right balance between what we need to invest to address the challenges of the future and keeping our bills affordable will be one of our most difficult tasks as we prepare for the next price control.

A key element in achieving that balance is to reduce operating costs by becoming more efficient. In turn there is another right balance to be struck here, this time between cost and service excellence. Our aim is to achieve both together rather than having to compromise on one to deliver the other. A great example of this is our programme to expand our digital services to our customers, part of our Retail 2025 programme. By increasing our customers' ability to serve themselves online we both make those services more responsive to customers' needs and also reduce the cost of providing an enhanced standard of service, even below what it had been before its functionality was extended. By giving our customer agents a single view of all the Company's interaction with our customers, whether in person, writing, email, phone or online, we will reduce the cost of servicing and at the same time deliver a much more responsive service to our customers, one where they never have to tell us the same thing two, three, or more times before a solution is found to their problem.

A WIDER PURPOSE

As a not-for-shareholder company we do not have to balance the interests of our customers alongside those of our shareholders. Instead we can take a much wider view of why we are here and the contribution we can make. This is set out in our Purpose, itself now enshrined in our constitution.

Through what we do, we aim to make a broader contribution to the communities of which we are a part than just drinking water and waste removal. That is why we invest in visitor centres at reservoirs that lend themselves to outdoor activity, and why we provide education centres and outreach to schools to build children's appreciation of their environment, albeit our ability to operate such areas as we would wish has been hard hit over the past year by the lockdowns. We are delighted to be restoring the Llanishen and Lisvane reservoirs allowing water-based recreation in the heart of Cardiff: the reservoirs are now refilled and we anticipate the newly-constructed visitors centre there opening in 2022-23.

This is also why in March last year Welsh Water published our own Wellbeing Commitments which mapped the Welsh Water 2050 strategic responses against the seven principal drivers of the distinctive Welsh legislation for public bodies set out in the Well-being of Future Generations (Wales) Act 2015 – a Wales that is prosperous, resilient, healthier, more equal, with cohesive communities, has a vibrant culture and language, and globally responsible. Whilst not bound by the Act, we align ourselves with its policies as we see these as being consistent with the Welsh Government's strategic policy statement relating to water. We committed in the document to reporting progress against these Wellbeing Commitments on an annual basis, and the first of these reports can be found on page 30.

WELCOME

I wrote last year of considerable change around our Board table with the retirement of Chris Jones, our Chief Executive since 2013, his succession by Peter Perry, the imminent retirement of two of our long-serving Non-Executive Directors, Menna Richards and Anna Walker, and Debra Bowen Rees having joined the Board as a new Non-Executive Director. In contrast, this past 12 months has seen only one change, our welcoming Jane Hanson as the Audit Committee Chair designate ahead of the forthcoming retirement of John Warren at this year's AGM. Jane has over 25 years' experience of leadership and management in large, customer-led organisations, particularly in regulated and consumer-driven markets. She was until recently a Non-Executive Director of Direct Line Insurance Group Plc and has chaired its Risk Committee since 2011. My grateful thanks to John for the great contribution he has made over the nine years he has served on our Board, and our best wishes for a very well-deserved retirement.

WELL DONE

One's first year as Chief Executive is always a big ask but I would like to take this opportunity to recognise Peter Perry's fantastic leadership of the business through this most difficult of years. What he has achieved to steer the Company both through the pandemic and the operational and weather-related challenges we have faced would have done a seasoned veteran proud! In the conversations I have had with management and staff from across the business there has been universal respect and thanks for the way he has led the Company. Well done Peter!

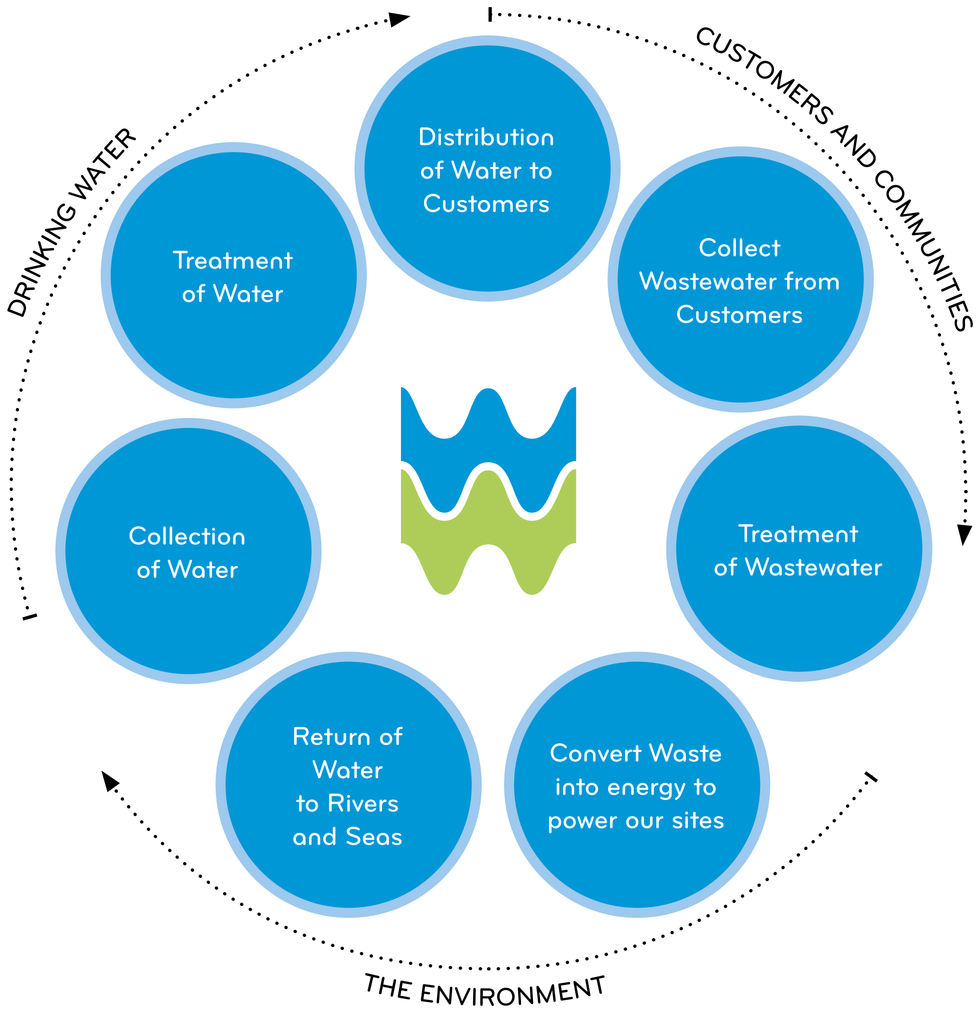
Alastair Lyons
Chair of the Board

3 June 2021

BUSINESS MODEL

OUR ACTIVITIES

We are focused on our core services, treating and distributing clean water and treating wastewater before releasing this to the environment.



IN ORDER TO DELIVER OUR PURPOSE, WE:

1. Take water, treat it and distribute high-quality drinking water to our customers across most of Wales and parts of Herefordshire
2. Collect, treat, and safely return wastewater to our rivers and seas across most of Wales, Chester and Deeside – protecting public health and the environment across our supply area
3. Reuse waste where possible and convert it into energy that powers some of our sites
4. Provide excellent levels of service to all of our customers, including those who are vulnerable or struggling to pay their water bills, as well as to developers and business customers

VALUE CREATED FOR STAKEHOLDERS

By continuously improving operational performance and investing for the long term, we can maintain our reputation and access borrowing at lower cost. We don't have shareholders, so any money we make is reinvested in the business to benefit customers.

CUSTOMERS

Household customers

- We are trusted to provide excellent customer service, including our support for customers in vulnerable circumstances or who struggle to pay their water bills

Commercial business customers

- We adapt our services depending on the needs and expectations of our business customers

DEVELOPERS

- We have maintained upper quartile service levels assessed against the industry standards for six years, and we continue to assist our developer customers to understand their obligations under Wales-specific legislation

EMPLOYEES

- We are proud of the progress we have made in building an inclusive work environment and supporting diversity in our recruitment policies and across our workforce

COMMUNITIES

- We have continued to support the communities we serve, including contributions to food banks in every local authority area across Wales during the first pandemic lockdown. We have also continued our Water Resilient Communities projects in Rhymney/Bargoed and Rhyl, and our Community Fund has provided matched funding to 54 community projects across our supply area

SUPPLIERS

- Over 2,000 suppliers and contractors support us in the services we provide. We are signatories to the Prompt Payment Code and in 2020 we took steps to ensure our suppliers were paid even more quickly during the pandemic

ENVIRONMENT

- We work with our environmental regulators, Natural Resources Wales and the Environment Agency, as well as other environmental organisations and charities, to enhance biodiversity, progress conservation initiatives, improve bathing and raw water quality, and to reduce our carbon footprint. Our Independent Environmental Advisory Panel, made up of representatives from a number of front-line environmental organisations in Wales and England, holds us to account in helping minimise adverse impact on the environment and to play our part in improving it wherever possible

OUR BUSINESS IN SUMMARY

WHAT WE DO

Serve:

- 3.1 million customers

Manage:

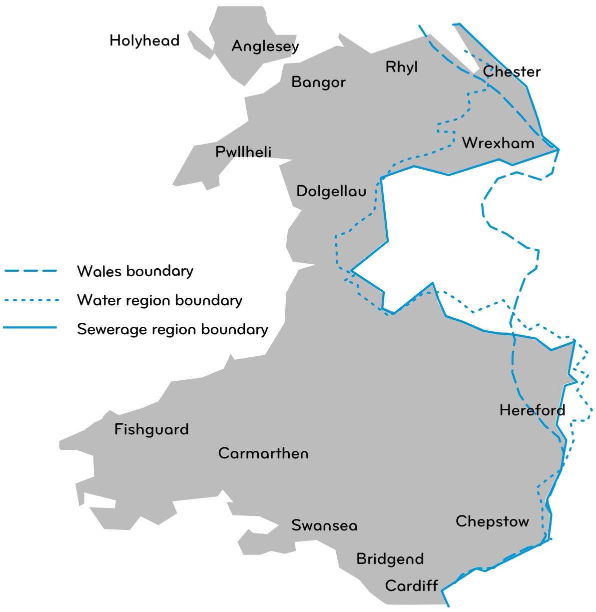
- 27,777km of water mains
- 36,782km of sewers
- 829 sewage treatment works
- 62 water treatment works
- £30 billion estimated asset replacement value

HOW WE DO IT

- A company 'limited by guarantee' since 2001 - unique 'non-shareholder' ownership model
- Single purpose - better value for customers and long-term stewardship
- High levels of investment funded through public debt markets
- Our non-shareholder model combined with low financial gearing levels results in lower financing costs
- Strong corporate governance (majority of Non-Executive Directors on the Board)
- 69 Glas Members (with no financial stake in the Company but who play an important corporate governance role)

OUR OPERATING AREA

Welsh Water's supply covers most of Wales as well as parts of Herefordshire in England. Our sewerage area covers most of Wales and parts of Chester and Deeside.



OUR RESOURCES

Our People Our people are our greatest asset, focused on earning the trust of our customers every day. Despite an extraordinary year, we have stayed focused on supporting and developing our people and ensuring an inclusive and welcoming environment with a diverse workforce that reflects the communities we serve.

Physical Assets Our assets, including above ground clean and wastewater treatment works, and below ground mains and pipes, would cost over £30 billion to rebuild if we had to do this from scratch. We invested £1.9 billion over the period 2015–20 and we are investing a further £1.8 billion over the next five-year period to ensure we maintain their resilience, and meet our customers' evolving expectations and the challenges of climate change and evolving regulation.

Natural Resources We rely on the network of impounding reservoirs (reservoirs with outlets controlled by gates that release stored surface water as needed) across our supply area, and increasingly we are working with partners to actively manage the catchments around these water sources. Our supply area benefits from many beautiful rivers and one third of the UK's bathing water beaches. Our four visitor centres (Llyn Brenig, Llys-y-Frân, Elan Valley and Llandegfedd) are an opportunity for the public to enjoy these beautiful natural resources.

Financial Capital Our not-for-shareholder corporate structure and long-term strategic approach supports a credit rating amongst the strongest in the Water sector and access to capital markets, and our gearing target at 60% ensures financial stability.

WHO WE SERVE

HOUSEHOLD CUSTOMERS

We are the sixth largest of the 11 regulated water and wastewater companies in England and Wales, in terms of the population we serve. We provide essential services to more than three million people across most of Wales, Herefordshire, and parts of Deeside and Cheshire. We offer customers in vulnerable circumstances the ability to register to receive priority service from us in the event of an incident, and we provide financial assistance to over 143,000 customers who struggle to pay their water bills. We pride ourselves on our customer service and we work to earn the trust of all our customers every day.

COMMERCIAL BUSINESS CUSTOMERS

We have a dedicated business customer team, for both our business customers who are "in the market" for retail services for water (for water companies based wholly or mainly in Wales, only customers who use more than 50ML per year at a single site can choose their water retailer – around 110 customers), and for other business customers (circa 110,000) for whom we remain the monopoly provider. We provide a tailored service to all of our business customers to meet their expectations and help them manage their water and wastewater cycles, and we also offer a range of additional services that complement our core service provision, such as leak detection and network optimisation where the customer needs it. During 2020-21 we temporarily suspended charge for around 45,000 business customers whose businesses were forced to close during the pandemic restrictions and have been proactively contacting business customers to offer advice and support relating to a range of subjects, including water quality and cold weather preparations (given the long periods for which many businesses have been closed).

DEVELOPER CUSTOMERS
One of our key priorities is to ensure we provide the essential water and wastewater infrastructure and services to support and promote economic growth and development across our supply area. Our dedicated expert team who support our developer customers, whether concerned with providing new housing, commercial or industrial premises, achieved industry leading performance for the period 2015 to 2020, compared to the other Welsh and English water companies, and an excellent customer satisfaction rating of 85% according to independent research conducted over the same period. In 2020-21 a new regulatory mechanism has been introduced to measure developer customers' experience (D-MeX) across all water companies in Wales and England. The team also supports the many major infrastructure projects being undertaken in our area, such as those relating to new highways and rail, that typically require investments in water and wastewater infrastructure totalling around £50 million in committed works on a rolling annual basis.

PUBLIC VALUE
Companies that articulate a clear social purpose are more likely to deliver societal value. They tend to create cultures where purpose influences key decisions made by a business and this is why our Company's constitution includes a clear statement of Corporate Purpose:

To provide high-quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.

This helps us embed our culture of putting customers first as part our Company's vision 'to earn the trust of customers every day'. We have also chosen to align our long-term planning with the strategic policy context of the seven goals set out in the Well-being of Future Generations Act (Wales) 2015 (see further on page 30), although we are not bound by the provisions of the legislation.

HOW ARE WE DELIVERING SOCIETAL VALUE ...

COVID-19: Our wider role in supporting our customers and communities has been brought to the fore during the Covid-19 pandemic (see page 55) as we have helped protect public health by continuing to provide our essential services while also contributing to post-Covid-19 planning as part of the Welsh Government's Green Recovery Task and Finish group. Examples of how we have worked with a number of organisations during the pandemic including supporting over 100 food banks across Wales are set out on page 84.

CUSTOMER BILLS: Bills are lower today in real terms than they were in 2001, as we remain the only water company in England and Wales to have kept annual price increases at or below RPI inflation for the last 12 consecutive years.

HELP FOR CUSTOMERS IN VULNERABLE CIRCUMSTANCES: During 2020-21 we provided financial assistance towards payment of our bills to a record of over 143,000 customers through our funding of social tariffs and other schemes; far more than any other water company in England and Wales.

INVESTMENT IN RESILIENCE: During the last 10 years we have delivered internationally, leading innovative investment programmes such as RainScape (retro-fitting sustainable urban drainage solutions into communities) and LandScape (managing catchments to meet the challenges of changing climate and land-use).

COMBATING CLIMATE CHANGE: We have reduced the carbon emissions from our operations by around 80% since 2010; we have switched to a clean energy electricity supply (in 2017-18) and increased the biodiversity of our landholdings as set out in our Biodiversity report at **dwrcymru.com/environment**.

COMMUNITY FUND: During 2020-21 we contributed £90,000 to community projects and supporting our employees in their fundraising and volunteering. The Fund particularly aims to support projects that are closely related to our environmental, educational and other activities, and also communities which are heavily impacted by our investment programmes. We also contributed a further £176,000, in recognition of the additional demands faced by third sector organisations caused by Covid-19.

COLLABORATING WITH OTHERS: We are a leading member of The Water Partnership for Wales, a public health initiative that brings together relevant organisations and agencies to work together on public health and water related issues. We are also participating in the Water Resources West group as part of the Regulators' Alliance for Progressing Infrastructure Development (RAPID) initiative to plan for long-term solutions to future water shortages. We work with centres of excellence in academic institutions across the UK and wider afield. See page 81 for more information on our Innovation programmes. We measure the public value we deliver by reference to the impact over 20 years of cumulative investment back into the business of profits that in other companies would have been paid out to shareholders as dividends.

The societal value we deliver reflects 20 years of cumulative investment back into the business of profits that in other companies would have been paid out to shareholders as dividends.

MARKET AND REGULATION

THE WATER SECTOR

Every day, over 50 million household and non-household consumers in England and Wales receive good quality water, sanitation and drainage services. These services are provided by water and wastewater companies in England and Wales.

Since the water and sewerage industry was privatised in 1989, a regulatory framework has been in place to ensure that consumers receive high standards of service at a fair price. This framework has allowed the companies to invest more than £130 billion in maintaining and improving assets and services. The industry must also comply with national and European legislation.

Water and wastewater companies operating the public water and wastewater networks hold instruments of appointment as water and sewerage undertakers respectively, for the purposes of the Water Industry Act 1991. They also supply water and wastewater services direct to customers who are connected to their networks.

REGULATORY FRAMEWORK

Water and wastewater companies in England and Wales are regulated in three key areas:

- Financial and economic (Ofwat)
- Environmental (NRW and EA)
- Water quality (DWI)

These regulators aim to protect consumers and the environment, and they monitor carefully the Company's performance.

We continue to maintain and develop our relationships with these regulators and a range of other regulators and public bodies to help shape balanced investment programmes, which address the needs of all of our customers and stakeholders while also contributing to our ability to create value.

Copies of the reports published by these regulators on Welsh Water's performance can be found on our website dwrcymru.com or on the website of the relevant regulator.

FUNDING CYCLE

The economic regulation of the water industry in England and Wales is based on price controls imposed by Ofwat on the amount that water and wastewater companies can charge for their services over five-year Asset Management Plan ("AMP") cycles. This is intended to reward companies for efficiency and delivering the outcomes and performance standards that customers want. The system generally allows companies to retain a share of any savings attributable to efficiency, thus creating an incentive to make such gains. Our ownership structure at Welsh Water allows us to use the surpluses we generate for the benefit of our customers, rather than paying them out as dividends to shareholders.

In December 2019 we received Ofwat's Final Determination in relation to the current price determination period (2020 to 2025), our AMP7 Plan, which set out our price controls with effect from 1 April 2020. The financial year for which we are reporting in this annual report is the first

Lower Neuadd Reservoir, Merthyr Tydfil

year of this five-year Plan. As detailed in the Chair of the Board's Statement on page 12, we are already planning for the next AMP (2025 to 2030) to ensure that our plans to improve the resilience of our assets for future generations include appropriate funding to be allowed by Ofwat towards achieving our Welsh Water 2050 vision.

We plan our investments over five-year periods. Our long-term plan sits alongside our current five-year investment plan for 2020–25, which sets out what we intend to do as first steps towards realising this vision. To gauge what our customers think of these plans, we engage with and listen to what our customers think about our plans for the future. For more details on our 2020–25 Business Plan and Welsh Water 2050, see pages 25 to 38.

DEVOLVED GOVERNMENT

The Welsh Government is the devolved Government for Wales. The majority of the functions of the Secretary of State are transferred, in as far as they relate to water and wastewater undertakers whose areas are wholly or mainly in Wales, to the Welsh Government. Welsh Government also has the power to make new legislation in respect of water, environmental regulation and flood defences. It works closely with the Department for the Environment, Food and Rural Affairs (DEFRA), which sets the overall water and sewerage policy framework in England.

THE FUTURE OF THE WATER SECTOR

The water industry faces unprecedented pressures in the shape of climate change and population growth. At the same time there are opportunities to change lives and to improve our natural environment. We believe the adoption of innovative approaches is central to delivering long-term resilience and the positive contributions we can make – to read more about our activities and investment in this area see Our Responsibilities, pages 80 to 93. Further details on other long-term challenges are set out overleaf.

As a responsible water company, we know the decisions we make today have an impact on our customers now and for generations to come. It is therefore vital that we remain resilient over the long term – Welsh Water 2050 sets out how we will tackle each of the challenges we face over the next three decades, and how we will prioritise each.

OUR REGULATORS

OFWAT
ofwat.gov.uk

THE WATER REDRESS SCHEME (WATRS)
watrs.org

HEALTH AND SAFETY EXECUTIVE
hse.gov.uk

WELSH LANGUAGE COMMISSIONER
comisiynyddygymraeg.cymru/english

NATURAL RESOURCES WALES AND ENVIRONMENT AGENCY
naturalresources.wales

gov.uk/government/organisations/environment-agency

DRINKING WATER INSPECTORATE
dwi.gov.uk

THE CONSUMER COUNCIL FOR WATER
ccwater.org.uk

LONG-TERM OPPORTUNITIES AND CHALLENGES

DEMOGRAPHIC CHANGE

Population growth will lead to increased water demand in certain areas and an ageing population may lead to more customers in vulnerable circumstances. However, technology is providing opportunities for us to communicate more effectively. with our customers of all ages.

ENVIRONMENTAL CHANGE

Invasive species, land use change and an increased risk of environmental pollution may lead to a reduction in water quality and biodiversity. However, co-operative approaches for the delivery of enhanced ecosystems services could lead to better environmental outcomes.

CLIMATE CHANGE

The ongoing effects of climate change will result in more extreme rainfall events, which could lead to an increased risk of flooding and pollution. Drier, hotter summers are projected, which could result in water supply deficits and the potential for increased water demand.

PROTECTING ESSENTIAL INFRASTRUCTURE

Ageing infrastructure, a limited supply chain and cyber security are key concerns for future service provision. Technological advances could lead to significant efficiencies in the planning, delivery and operation of new assets.

CHANGE IN CUSTOMER EXPECTATIONS

Customer expectations are likely to continue to change and develop with a desire for a more personalised service and control over their use of services and less tolerance of service outages. This will particularly be the case for business customers.

POLICY AND REGULATORY CHANGE

Changes in policy and regulation are expected due to the UK leaving the European Union, devolution and changing quality standards; this creates uncertainty, but provides the opportunity for us to help shape future policy. Improved regulatory methods and innovative policy developments could lead to more efficient delivery of services to our customers.

CHANGE IN THE STRUCTURE OF THE ECONOMY

The growth of the digital, knowledge based economy will create opportunities to provide services in more efficient ways. However, it could also have an impact on the nature of society, and present a challenge to continuing to meet the needs and expectations of our customers.

PROTECTING PUBLIC HEALTH

Regulatory standards to protect drinking water quality are likely to continue to tighten in the future. We will have a role to play in promoting healthier and more sustainable lifestyles for our customers.

OUR RESPONSE – WELSH WATER'S 2050 VISION ADDRESSES THESE LONG-TERM OPPORTUNITIES AND CHALLENGES

Our long-term vision, Welsh Water 2050, was published in 2018 following a detailed consultation process involving our customers, Glas Members and other key stakeholders. It is grounded in our corporate purpose and aligned with Welsh Government's Water Strategy for Wales (2015) and the seven wellbeing goals set out in the Well-being of Future Generations (Wales) Act 2015. We recognise that this document will need to be adapted to events during the period, but it provides a baseline for our ambitions in all key areas of our business during the period to 2050, summarised in the 18 strategic responses (please see page 26 for more details).

OUR LONG-TERM PLANNING

Welsh Water has published a long-term strategy – Welsh Water 2050. This forms the roadmap for the next 30 years of the business, and sets out the principal drivers that will influence our plans for each five-year price control period.

> READ MORE ABOUT OUR STRATEGY AND LONG-TERM PLANNING ON PAGES 26 TO 38

WELSH WATER 2050

Welsh Water 2050 sets out our long-term vision which will help us address the many challenges that lie ahead - from climate and demographic change to the pace of technological change and also to increasing customer expectations. These challenges are set out overleaf.

We also know that our customers expect us to anticipate these future challenges to ensure we continue to provide them with a service they can trust. During the development of Welsh Water 2050, we engaged and consulted with relevant stakeholders to ensure their informed views were captured and helped us shape the final plan. It is vital that our next five-year Business Plan reflects and responds to the latest available data on these and other challenges. We are working with Cardiff University to review and update our understanding of the long-term trends, and will be publishing an update to Welsh Water 2050 in 2022, ahead of the development of our Business Plan for 2025-30.

WELLBEING COMMITMENTS

OUR COMMITMENTS:
Mapping against the Well-being of Future Generations (Wales) Act 2015.

OUR LONG-TERM STRATEGY

WELSH WATER 2050

Our 18 strategic responses to respond to the future challenges which in turn will enable us to become a truly world-class, resilient and sustainable water service for the benefit of future generations.

DRINKING WATER

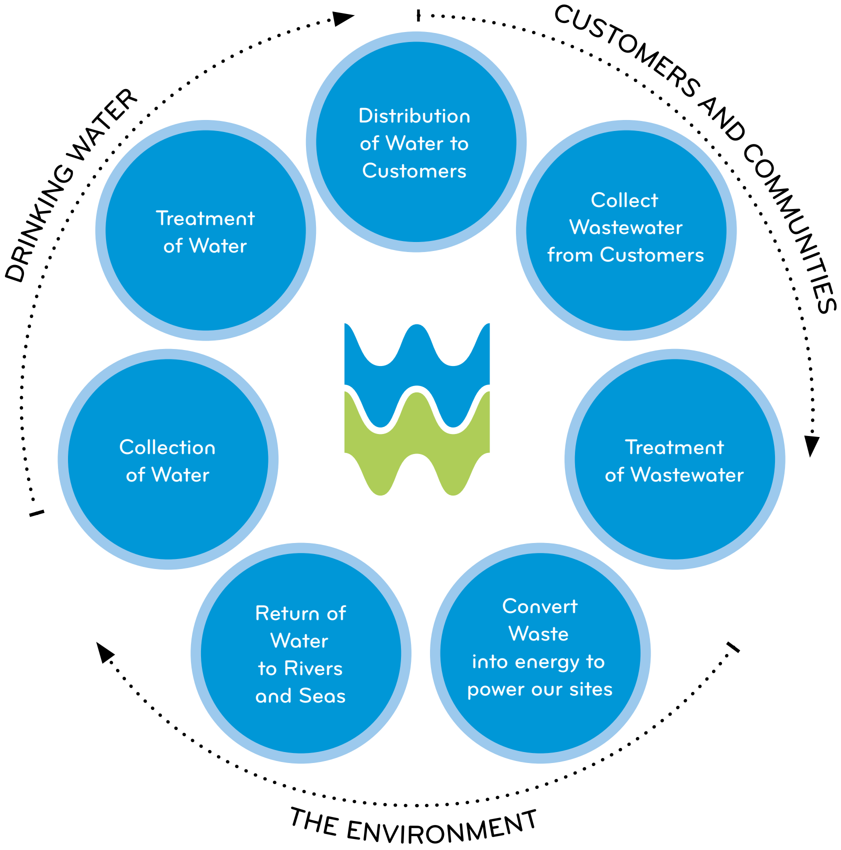
1. Safeguarding clean drinking water through catchment management
2. Enough water for all
3. Improving the reliability of drinking water supply systems
4. Protecting our critical water supply assets
5. Achieving acceptable water quality for all customers
6. Working towards a lead-free Wales

CUSTOMER AND COMMUNITIES

7. Working with customers and communities
8. Ensuring affordability of services delivered to customers
9. Supporting customers in vulnerable circumstances
10. Addressing our 'worst-served' customers
11. Continuing to be recognised as Employer of choice
12. Providing leading-edge customer service
13. Increasing use of Smart water system management

ENVIRONMENT

14. Supporting ecosystems and biodiversity
15. Using nature to reduce flood risk and pollution
16. Cleaner rivers and seas
17. Protecting our critical wastewater assets
18. Promoting a circular economy and combating climate change management



FUTURE GENERATIONS ACT – WELLBEING GOALS

A A prosperous Wales
B A resilient Wales
C A healthier Wales
D A more equal Wales
E A Wales of cohesive communities
F A Wales of vibrant culture and thriving Welsh language
G A globally responsible Wales

WELSH WATER 2050

Our Welsh Water 2050 document was published following public consultation in 2018. It describes the principal challenges we face as a business over the next 30 years, including climate change, demographics, and changing customer expectations. It then sets out how we plan to respond to these challenges, through 18 Strategic Responses, to ensure we can achieve our long-term mission "to become a truly world-class, resilient and sustainable water service for the benefit of future generations." Our wellbeing vision is set within the policy context of the Welsh Government's Well-being of Future Generations (Wales) Act 2015 and Environment (Wales) Act 2016.

Since 2018, we have seen striking evidence of many of the challenges and risks identified in Welsh Water 2050, including severe storms, periods of extended drought, the opportunities and challenges of Brexit, and a global pandemic. Read Welsh Water 2050 online at **dwrcymru.com/water2050**

We are working in a number of key areas which support achieving our WW2050 strategic objectives:

DRINKING WATER

1: SAFEGUARDING CLEAN DRINKING WATER THROUGH CATCHMENT MANAGEMENT A B C G	Catchments as a first line of defence: we will face increased levels of pesticides, fertilisers, nutrients and pathogens in raw water, and increased turbidity affecting the quality of water reaching our water treatment works due to the intensification of agriculture and greater intensity of storms. We will co-create an extensive, innovative programme of catchment management with landowners and partners.
2: ENOUGH WATER FOR ALL A B C G	Confronted with an increasing water supply demand gap due to population growth, and drier summers due to climate change, we will use our Water Resource Management Plan to ensure the water supply demand balance to 2050. We propose to implement water transfers, demand management measures and leakage reduction programmes to address any deficits, while recognising the possible need to support other parts of the UK.
3: IMPROVING THE RELIABILITY OF DRINKING WATER SUPPLY SYSTEMS A B C G	Faced with an increased risk of outages due to agricultural run-off, extreme weather events, and to mitigate any risk of cyber attacks, we will build more flexibility and integration into our water treatment and supply systems.
4: PROTECTING OUR CRITICAL WATER SUPPLY ASSETS A B C G	With increasing risks of disruption (for example, from severe weather events resulting from climate change and increased reliance on technology) and limited customer tolerance of supply outages, we will improve the resilience of critical water assets which have high consequences of failure.
5: ACHIEVING ACCEPTABLE WATER QUALITY FOR ALL CUSTOMERS A B C G	Ageing water mains and more extreme weather events increase the risk of supplying water that is discoloured or has a poor taste. This will be addressed through a targeted replacement of iron mains.
6: WORKING TOWARDS A LEAD FREE WALES A B C G	We have the opportunity to help improve public health, and propose a targeted replacement of lead communication and supply pipes, as part of a wider societal effort to address lead in drinking water.

OUR LONG-TERM STRATEGY

CUSTOMERS AND COMMUNITIES

7: WORKING WITH CUSTOMERS AND COMMUNITIES A B C E	We will work with customers and communities to co-create solutions, share knowledge and support initiatives, which reduce water use, prevent sewer abuse, and provide wider benefits for communities and the environment.
8: ENSURING AFFORDABILITY OF SERVICES DELIVERED TO CUSTOMERS A B C E	With inequality, debt and poverty on the rise we aim to ensure that our services remain affordable for all customers: both in terms of average bills and for those on social tariffs. We will ensure that we continue to provide the best service in increasingly innovative and efficient ways and pass these savings on to our customers.
9: SUPPORTING CUSTOMERS IN VULNERABLE CIRCUMSTANCES A B C E	We need to use data effectively, provide personalised customer service and work in partnership with other service providers to give appropriate and effective support to customers in vulnerable circumstances.
10: ADDRESSING OUR 'WORST SERVED' CUSTOMERS A B C E	Faced with increasing customer expectations for a good service at all times, we will address the long-standing service complaints of 'worst served' customers to ensure that everyone receives an acceptable level of service.
11: CONTINUING TO BE RECOGNISED AS EMPLOYER OF CHOICE A B C E	With an ageing population, an increasing shortage of technically skilled employees and increasing demand for more flexible approaches to working, we will need to continue to be an employer of choice, attracting, developing and inspiring people from a diverse range of backgrounds, to deliver an excellent service for our customers.
12: PROVIDING LEADING-EDGE CUSTOMER SERVICE A B C E	Changing customer expectations, the digital revolution and demographic and lifestyle change are all leading Welsh Water to further develop our customer service culture. We will harness technological change to provide a personalised service for customers through their preferred contact channel.
13: INCREASING USE OF SMART WATER SYSTEM MANAGEMENT A B C E	With the opportunity to capitalise on technological advances, we will improve the service performance and resilience of our assets through remote sensing, data analysis and automation; solving problems before they impact on our business, our customers, or the environment.

ENVIRONMENT

14: SUPPORTING ECOSYSTEMS AND BIODIVERSITY

A B C G

Biodiversity faces threats including habitat loss, fragmentation and over-exploitation. In the longer term, temperature and changed rainfall patterns will also impact biodiversity. We will look for ways to help nature, enhance biodiversity and promote ecosystem resilience while we carry out our water and sewerage activities. Welsh Water has a duty under the Environment (Wales) Act 2016 to enhance biodiversity and promote the resilience of ecosystems in the exercise of our functions.

15: USING NATURE TO REDUCE FLOOD RISK AND POLLUTION

A B C G

RainScaping our communities: confronted with urban creep due to demographic change, and increased intensity of rainfall due to climate change, Welsh Water is proposing to reduce the risk of sewer flooding and pollution through sustainable urban drainage systems.

16: CLEANER RIVERS AND BEACHES

A B C G

With increasing pressure on the natural environment from increased population, changing land use, climate change and new sources of pollution, we will improve our wastewater assets to do our part to help achieve 'good' environmental status for our rivers, lakes and coastal waters.

17: PROTECTING OUR CRITICAL WASTEWATER ASSETS

A B C G

Faced with an increased risk of disruption, for example, from an increase in severe weather as a result of climate change, and reduced customer acceptability of pollution events, we will improve the resilience of our critical wastewater assets, which have high environmental and customer impacts of failure.

18: PROMOTING A CIRCULAR ECONOMY AND COMBATING CLIMATE CHANGE

A B C E

Faced with a changing climate and increased energy costs, we will aim to become an energy neutral business, while maximising the opportunities to reuse treated water and other potentially valuable natural materials, contributing to the circular economy in our local region.

FUTURE GENERATIONS ACT – WELLBEING GOALS

A	A prosperous Wales
B	A resilient Wales
C	A healthier Wales
D	A more equal Wales
E	A Wales of cohesive communities
F	A Wales of vibrant culture and thriving Welsh language
G	A globally responsible Wales

OUR LONG-TERM STRATEGY

WELLBEING COMMITMENTS 2020

Our Wellbeing Commitments mark out how we intend to realise the ambitions of the seven Well-being goals in the Future Generations (Wales) Act 2015, bringing together the aims of our 2020-2025 Business Plan and the longer-term Welsh Water 2050 plan. These commitments set out measurable targets to 2025 and beyond.

A PROSPEROUS WALES

- Keeping bills affordable
- Providing the best service to developers
- Boosting business customer satisfaction

A WALES OF COHESIVE COMMUNITIES

- Community-based initiatives
- Educating our future customers
- Providing opportunities for local people
- Increasing the diversity of our workforce to reflect the communities we serve

A RESILIENT WALES

- Investing to reduce leakage in our network
- Making sure we're ready for the future challenges
- Working in partnership at catchment level

A WALES OF VIBRANT CULTURE AND THRIVING WELSH LANGUAGE

- Encouraging our Welsh identity
- Supporting Welsh culture
- Providing bespoke training to colleagues
- Increasing inclusivity at work

A HEALTHIER WALES

- Increasing access and wellbeing across the areas we serve
- Supporting Refill Cymru (drinking water bottle refill scheme)
- Helping protect and develop our people
- Replacing lead pipes

A GLOBALLY RESPONSIBLE WALES

- Achieving carbon neutrality
- Fair tax mark accreditation
- Tackling the global water challenge

A MORE EQUAL WALES

- Supporting those customers who genuinely struggle to pay
- Promoting our priority services to customers in need of support
- Signing up to the social mobility pledge
- Living Wage employer

Barafundle Bay, Pembrokeshire

OUR LONG-TERM STRATEGY

WELLBEING COMMITMENTS 2020

Our dedication to benefiting the communities we serve is ongoing — but we've undertaken several pledges over the coming five-year investment period (2020–25) which will help drive and improve our services. The table below sets out in the left hand column those targets we set ourselves when we launched the Wellbeing Commitments in 2020, and the middle and end columns detail the progress we have made to date.

Key: 🟣 Ahead of target 🟢 On target 🟠 Target at risk 🔴 Behind target

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
A PROSPEROUS WALES		
Keeping bills affordable We committed to keeping bill increases below inflation for each year up to 2025	• For the 12th consecutive year we have kept bill increases at or below the rate of RPI inflation. The average bill will be 2% lower in 2021-22 than last year, in real terms.	🟣
Providing the best service to developers We promised to build on our customer service offering for developers with a new system of automatic compensation	• Our Developer Customer Service Commitment has been in place since 2018 and provides automatic compensation payments where we fail to meet a Developer Services levels of service timescale. This was extended to include New Appointments and Variations (NAVS) during 2020-21. We continue to invest significantly to improve our service to all types of developer customers and this should also support an improvement in our Ofwat D-Mex score and comparative position in the industry. We await confirmation of our score for 2020-21.	🟠
Boosting Business Customer Satisfaction We aimed to maintain an upper-quartile ranking for business customer satisfaction as assessed by CC Water* *This measure is not currently available and was replaced with our own survey for business customers, albeit the survey has been disrupted as a result of the impact of the pandemic	• 100% of our customers reported that they are satisfied with the retail service provided in the Consumer Council for Water's non-household customer insight survey 2020. We achieved a score of 4.4 out of 5 in our business customer satisfaction survey this year. However, we would like to do even better.	🟢
A RESILIENT WALES		
Reducing leakage in our network We committed to reducing leakage in our network by 15% during 2020-25	• Over the last 20 years or so, we have reduced water leakage by a third. We have achieved our reduction target for this year and remain on track to achieve a 15% reduction by 2025.	🟢
Making sure we're ready for future challenges We need to ensure our services can cope with future stresses such as extreme weather events We committed to doubling the amount of rainwater we divert from our sewer network by 2025	• We have built flood protection for key treatment works (Mayhill in Monmouth and Whitbourne in Herefordshire) and improved operational resilience with other major investments. However, we did not meet our surface water removal target for the year. • We are working with Nutrient Management Boards for the Wye and Usk rivers to better understand the impact of discharges from Combined Storm Overflows (CSOs).	🟠

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
Working in partnership at catchment level We committed to working with agricultural and landowning partners at a catchment level to ensure optimal raw water quality	• We are on track to deliver our Rainwater Catchment Improvement programme by 2025 and are continuing to research how the quality of our raw water is changing. We are working in partnership with local landowners to protect water quality in key catchments. See page 82 for examples of these schemes.	🟢
A HEALTHIER WALES		
Increasing access and wellbeing across the areas we serve We committed to major investments in our visitor centres at Llys-y-Frân (Pembrokeshire) and Llanishen/Lisvane reservoirs (Cardiff) We targeted increasing the number of visitors to our centres to 830,000 a year by 2025	• Our planned improvements to visitor centres are ongoing, and our new visitor centre in Llys-y-Frân in Pembrokeshire will open in 2021, although the opening has been delayed by several months. • We have been unable to increase visitor numbers as planned due to the Covid-19 pandemic and did not meet our target for 2020-21.	🟠
Supporting Refill Cymru We promised to work in partnership with Welsh Government and the Water Health Partnership as part of Refill Cymru	• Whilst we've continued to liaise with Welsh Government to help support the provision of refill points for drinking water bottles and reduce dependency on single use plastics, roll out has been limited due to the pandemic restrictions.	🔴
Helping protect and develop our people We committed to maintain and build on our Platinum Corporate Health Standard	• We submitted our application to retain the Corporate Health Standard at Platinum level in February 2021. See page 68 for further details. We have been working to protect colleagues and maintain their wellbeing during the pandemic (see page 88).	🟢
Removing lead pipes We targeted supporting 7,000 customers with lead supply pipe removal by 2025	• This programme has been delayed due to the Covid-19 pandemic as we have been unable to carry out work in customers' homes. However in 2021-22 we will be focused on making better progress towards meeting our AMP7 target of replacing 7,000 lead supply pipes by 2025.	🟠
A MORE EQUAL WALES		
Supporting customers who struggle to pay We committed to maintaining our progress in supporting low-income households with social (discounted) tariffs – benefiting more than 130,000 customers	• We have continued to increase the number of customers on targeted social (discounted) tariffs, though we were slightly behind our target for 2020-21. We have far more customers on these tariffs than any other water company. We also suspended charges to around 45,000 business customers affected by the Covid-19 lockdowns.	🟢
Promoting Priority Services We targeted increasing the numbers of customers on our Priority Services Register to 100,000 by 2025	• We temporarily added over 340,000 customers in vulnerable circumstances to our Priority Services Register so that they could receive additional practical support in the case of any operational incidents arising during the pandemic.	🟣

OUR LONG-TERM STRATEGY

Key: 🟣 Ahead of target 🟢 On target 🟠 Target at risk 🔴 Behind target

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
Social Mobility Pledge We committed to the Social Mobility Pledge	• We have signed up and are committed to the Social Mobility Pledge in partnership with the rest of the water industry. We have continued with our apprenticeship programme even during the pandemic, with new cohorts joining in September and January.	🟣
Living Wage Employer We committed to build on our accreditation as a Living Wage Employer, promoting fair pay practices to our supply chain	• We continue to honour our commitment to be a Living Wage Employer and will increase all colleague salaries to at least the new Real Living Wage of £9.50 per hour from 1 April 2021. • This will also be reflected in service contracts from May 2021. We are working with our supply chain to promote fair employment practices.	🟣
A WALES OF COHESIVE COMMUNITIES		
Community-based initiatives We promised to expand our Water Resilient Communities initiative	• We have made good progress in implementing new Resilient Communities programmes in Rhyl and Rhymney/Bargoed, delivering training, support, and other sessions to 34 organisations. (See page 84 for details of our work with community organisations and Water Resilient Community projects.) Since launching our Community Fund in 2017, nearly 350 local organisations have benefited from grants.	🟣
Educating future customers We targeted reaching up to 75,000 children by 2025 to help promote stewardship of our environment	• As a result of the Covid-19 pandemic restrictions, we are behind our target of expanding our education programme, though we remain confident of reaching the target by 2025. See page 56 for details of the innovations we have made to our education provision to continue to engage with future customers despite the pandemic restrictions.	🟠
Providing opportunities for local people We committed to working with The Prince's Trust in our Water Resilient Community areas to promote "Get Into" programmes	• We are supporting the Government's Kickstart scheme, and will be offering 16-24-year-olds a six-month work experience placement across the business to help train and support young people to get a job in the future or join an apprenticeship scheme. • See pages 85 and 86 for details of the work we have been doing with The Prince's Trust and also with our supply partners to support young people.	🟣
A WALES OF VIBRANT CULTURE AND THRIVING WELSH LANGUAGE		
Encourage our Welsh identities We committed to providing an equally good service through the medium of Welsh or English Target to increase the number of customers registered for our Welsh-Language service	• See page 87 for details of our Welsh language provision for customers and our support for the use of Welsh in our workplaces.	🟣

WELLBEING COMMITMENTS	COMMENT	OVERALL GOAL
Supporting Welsh culture We committed to taking an active role at major Welsh cultural events	• Our activities in this area have been severely restricted by the Covid-19 pandemic this year.	🔴
Providing bespoke training to colleagues We promised to encourage the use of Welsh among colleagues and offer language lessons to those who wish to learn	• See page 87 for details of our Welsh language training for colleagues. • Our Talent Development team supports personalised development and training plans for colleagues across the business.	🟢
Increasing inclusivity at work We promised to build on our partnerships with organisations such as Chwarae Teg, Stonewall Cymru and Disability Wales	• See page 88 for details of our Equality, Diversity and Inclusivity initiatives. We continue to make progress in the area, but we also know have further to go in ensuring an inclusive workplace which is reflective of the diversity of the communities we serve.	🟢
A GLOBALLY RESPONSIBLE WALES		
Achieving carbon neutrality We committed to reducing greenhouse gas emissions and increasing our energy self-sufficiency to 35% by 2025	• Our new Advanced Anaerobic Digestion plan at Cog Moors became fully operational this year. This will help to reduce our carbon footprint and reduce costs for customers. However, we are behind on our energy self-sufficiency target for the year due to increased power requirements during adverse weather events in 2020-21 and to support increased water consumption. See page 80 for details of our carbon neutrality goals and plan to achieve them.	🔴
Fair Tax Mark We committed to seeking accreditation with the Fair Tax Mark	• We have submitted our application for accreditation and are working towards this.	🟠
Tackling the global water challenge We promised to continue to support communities in Uganda to build sustainable and safe water and wastewater systems and provide hygiene education	• The Covid-19 pandemic has limited the opportunities for colleagues to undertake usual fundraising activities to support our two strategic partners (WaterAid and the Prince's Trust). However, we donated £15,000 to each organisation during 2020-21 to help support their work. We continue to carry out smaller, socially distanced fundraising activities, in line with Covid guidelines, as well as continuing to support the WaterAid lottery which is open to all colleagues to join through payroll. • We are really grateful that many of our customers have chosen to respond to opportunities to support WaterAid highlighted in the leaflet we enclose with our annual bills. Since our partnership with WaterAid began in 2008, colleagues and customers have together raised over £1 million for WaterAid.	🟢

OUR MEDIUM-TERM PLANNING – AMP7 PLAN

AMP7 BUSINESS PLAN (2020-2025)

After consulting our customers about their priorities, we made eight outcome commitments to our customers and colleagues and there are a total of 56 performance targets that we want to achieve by 2025 that will benefit our customers, communities and our environment. Our performance against 18 key performance targets can be found on pages 57 to 61. More detailed reporting on all 56 performance targets can be seen in our Annual Performance Report at **dwrcymru.com/annualperformancereport**

MEDIUM TERM PLANNING - AMP7 BUSINESS PLAN (2020 - 2025)

The five-year programme involves more than £1.8 billion in capital investment, alongside a commitment to reduce bills in real-terms over the five-year period, with prices rising below the level of Consumer Price Index) CPI(H) measure of inflation. This plan aims to invest to benefit customers, but also to strike the balance between investment and ensuring bills are as affordable as possible.

① Clean, safe water for all
② Safeguard our environment for future generations
③ Personal service that is right for you
④ Put things right if they go wrong
⑤ Fair bills for everyone
⑥ Create a better future for all our communities
⑦ Resilience
⑧ Developing our people

1
CLEAN, SAFE WATER FOR ALL

Providing a safe and reliable supply of water is the most vital aspect of our service to customers.

OUR TARGETS

- achieve upper quartile performance for water quality compliance according to the DWI's Compliance Risk Index (CRI) measure
- reduce the average number of minutes that affected customers are without water
- reduce the number of occasions on which customers contact us about the appearance, taste or odour of drinking water
- identify and replace 7,000 lead pipes across our supply area

2
SAFEGUARD OUR ENVIRONMENT FOR FUTURE GENERATIONS

We take our responsibility for the environment every bit as seriously as our commitments to customers.

OUR TARGETS

- improve wastewater treatment works compliance to 100%
- reduce the number of times we cause pollution incidents due to failures at our works or problems with our sewers (excluding pollution incidents at water treatment works)
- further reduce leakage levels by 12%
- improve energy self-sufficiency from 31% to 35% (measure of electricity generated and gas injected to the grid as a percentage of all electricity and gas consumed by the Company)
- increase the length of rivers improved to "good" ecological status by 418km (new measure for AMP7)

3

PERSONAL SERVICE THAT IS RIGHT FOR YOU

We put particular emphasis on metrics such as customer satisfaction and customer trust, and challenge ourselves to be consistently among the best performing companies in the industry.

OUR TARGETS

- achieve excellent customer service under Ofwat's C-MeX and D-MeX measures (new for AMP7)
- maintain our high scores for customer trust - target score for 2024–25 of 8.15 (average score out of 10 for customers asked)
- maintain business customer satisfaction scores – target score for 2024–25 of at least 90%
- increase the number of vulnerable customers registered on our Priority Services Register to receive tailored services in the event of an operational incident from 4% to 7%

4

PUT THINGS RIGHT IF THEY GO WRONG

We know that we don't always get everything right for our customers first time. Our customers have told us that the very worst service failure they can experience is sewer flooding, and we are particularly committed to reducing the number of flooding incidents, both within customer properties and on land adjacent.

OUR TARGETS

- maintain internal sewer flooding incidents at no more than 253 incidents per year
- reduce external flooding incidents on customer properties to no more than 3,800 incidents per year
- achieve upper quartile performance across the industry for total complaints
- improve the service received by our "worst served" customers. These are customers who suffer from repeat problems with the services we provide, e.g. low water pressure or sewer flooding – 2025 targets are no more than 1,654 customers at risk for water and no more than 357 customers for wastewater

5

FAIR BILLS FOR EVERYONE

Keeping bills as low as possible is fundamental to earning and maintaining the trust of our customers. Since becoming a not-for-shareholder company in 2001, our record on customer bills is the best in the sector, showing a 3% reduction relative to the Retail Prices Index (RPI) measure of inflation since 2000. We have kept the increase in the average household bill below RPI every year for a decade – the only water company in England and Wales to achieve this.

OUR TARGETS

- maintaining changes in average bills to be below CPI(H) inflation every year
- increasing the numbers of customers struggling to pay their water bills who benefit from our social tariffs scheme to 148,000
- reducing Company level of bad debt to 2% of total revenue billed in year
- reducing unbilled properties to 3.5% of all properties (new measure for AMP7)

OUR MEDIUM-TERM PLANNING – AMP7 PLAN

6

CREATE A BETTER FUTURE FOR ALL OUR COMMUNITIES

Welsh Water is dependent on a wide range of partnerships to provide a resilient and high-quality essential public service for the future. Examples include partnerships with universities (through Welsh Water 2050 and our resilience work), other utilities (to support vulnerable customers), farmers (on pesticide reduction), and environmental organisations (many of which sit on our Independent Environmental Advisory Panel).

OUR TARGETS

- increase the numbers of children benefiting from our education centres and our outreach education provision to 75,000
- increase the number of visitors to our visitor centres to 830,000 per year
- increase the number of customers signed up for our Welsh Language Scheme service to 25,000 (new measure for AMP7)

7

RESILIENCE

Strengthening resilience so our customers can depend on their water and wastewater services, both now and in the future, is a major feature of our business plan for 2020–25. Resilience is not just about assets – our plan follows the "whole-business" approach to resilience.

OUR TARGETS

- Unplanned outages - to maintain sufficient peak week production capacity to meet our customers' needs
- reducing the risk of sewer flooding in a 1 in 50 year storm from 31% to 29.45%
- reducing the risk of severe restrictions in a 1 in 200 year drought from 4.5% to zero (the percentage of the population at risk of experiencing severe restrictions in a 1 in 200 year drought, on average, over 25 years)
- Drainage and Wastewater Management Plans (DWMP)
- target to achieve 100% of catchments where we have implemented Level 1 DWMP in accordance with the guidelines
- financial resilience – maintaining our "high" resilience or investment grade credit rating from Moody's, Standard & Poor's, and Fitch credit rating agencies

8

DEVELOPING OUR PEOPLE

Our people are our most important assets.

OUR TARGETS

- ensure at least 90% of all our colleagues trained to be fully competent for their role
- continuing our "Journey to Zero" by having no more than 5 RIDDORs (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations), reducing our RIDDOR target by one incident each year (2021-22 target: 8 RIDDORs)
- continue to achieve "best in class" engagement levels of 75–80% (measured by an independent annual survey of all colleagues)

OUR STAKEHOLDERS

Engagement with our stakeholders plays a vital role throughout our business. Our key stakeholder groups, their interests and how we engage with them are set out in the table below. By understanding our stakeholders, we can factor into Boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns in accordance with S172 of the Companies Act (see page 44). Since March 2020, stakeholder engagement which normally would have been conducted face to face has been conducted remotely with actual site visits only being made when it was possible to do so.

STAKEHOLDER	THEIR INTERESTS	HOW WE ENGAGE	HOW THE BOARD ENGAGES
OUR CUSTOMERS As a customer-led business we focus on delivering the best quality services possible, at the lowest-possible price, and supporting those who need it most. > READ MORE ON PAGE 55	• Customer bills • Improved services • Economic prosperity • Data Protection • Trust • Priority Services Register • Social Tariffs • Creating new homes and businesses • How we contribute to their community • Sustainability and Innovation	• Direct engagement through telephone, web and social media • Retail customer website and online services • Seeking feedback and views from our customers across all areas we serve • Attendance at major business events across Wales and Herefordshire • Key account management of our business and developer customers • Focus groups and customer interviews to gain insight into what customers want and to test new services • Annual Trust survey to check we meet customer expectations • Continuous improvement of processes and awareness of key principles that govern personal data • Communicating with vulnerable groups through third sector partnerships • Maintaining our Priority Services Register involving data sharing initiatives with other utilities companies and public bodies • Provision of expert knowledge and added value services to business and developer customers • Half-yearly Developer Services forums	• Annual review of the delivery plans by customer type • Interaction with the Customer Challenge Group (CCG) • Specific reports on events that impact our customers, for example, storms and Covid-19 • Regular updates on customer engagement and on our customer satisfaction performance • Opportunities for the Board to hear feedback from focus groups • Reports on customer activities including Vulnerable Customer strategy and HelpU tariffs • Updates on our digital services offering to improve customer experience • Reports on GDPR compliance and cyber risk

OUR STAKEHOLDERS

STAKEHOLDER	THEIR INTERESTS	HOW WE ENGAGE	HOW THE BOARD ENGAGES
OUR PEOPLE We have a dedicated workforce which we recognise as a key asset of our business. It is imperative that we continue to create the right environment and opportunities for our colleagues to realise their full potential. > READ MORE ON PAGE 88	• Health, safety and wellbeing • Training, development and career prospects • Fair pay and benefits • Human rights and the prevention of modern slavery • Diversity and inclusion in recruitment and retention policies • Inclusive and supportive work environments	• Safety and wellbeing, including mental health initiatives and wellbeing champions across the business • Event, weather and workplace specific health and safety bulletins • Quarterly wellbeing engagement surveys • Employee Roadshows and Leadership Conferences • Daily and bi-weekly updates via email and intranet • Themed Weeks including sessions with subject related inspirational speakers • Monthly call led by the Chief Executive Officer open to all colleagues • Working Together agreement with trade unions • Code of Conduct encouraging colleagues to "speak up" and "do the right thing" • Annual performance and career development reviews, regular one-to-ones and team meetings • Career development support for apprentices, graduates, interns • Dedicated mentoring • Welsh language scheme to encourage the use of Welsh amongst colleagues • Re:Think group and inclusivity champions across the business • Investor in People Gold standard processes • Disability Confident accredited practices	• Chairman/Non-Executive Director site visits and informal lunches with local teams • Employee Engagement sessions with engagement champions and the wider workforce on a range of topics, including one dedicated to discussing Executive remuneration • Reports from Executive Directors on attendance at trade union meetings • Reviewing reports on a range of people and cultural matters, including adapting to Smarter Ways of Working, employee engagement, health, safety and wellbeing, diversity and inclusivity and gender pay gap • Receiving updates on whistleblowing investigations • Policy and Statement reviews and approvals • Talent development and succession planning reviews, including mentoring • Board agendas facilitating colleague involvement • Review of Company-wide remuneration policies and practices

STAKEHOLDER	THEIR INTERESTS	HOW WE ENGAGE	HOW THE BOARD ENGAGES
OUR COMMUNITIES We are committed to supporting the communities in which we operate, including residents, businesses and the wider public. > READ MORE ON PAGE 84	• Continuous good quality water supply without restriction • Minimised sewer flooding and pollution • Reducing leakage • Support for economic development and providing services to business and developer customers at an affordable price	• Direct presence (when possible) and support via social media in communities for events such as storms and during the pandemic • Financial support for local projects via our Community Fund • Resilient Communities programme to help our most vulnerable customers • Water Aid and Prince's Trust support • Education services at our four Discovery Centres and via outreach programme schools • Our seven Wellbeing Goals aligned with the Well-being of Future Generations (Wales) Act 2015	• Discussion and agreement of strategies to support our community initiatives and to deliver our Wellbeing Goals • Board visits to community projects when possible • Review of response to critical events such as climate change, storms and floods and the Covid-19 pandemic • Hearing from Glas Members on local impacts • Ensuring impact on local communities is included in decision-making
OUR ENVIRONMENT Our environment stakeholders act as critical friends, partnering with us in the delivery of our environment programme. They also advise and support the Company, helping us inform policy changes. > READ MORE ON PAGE 80	• Climate change and carbon emissions • Renewable energy technology and application • Circular economy • Biodiversity and nature • Innovation, science and research • Fishing and ecological resilience • Sustainable food production • Sustainable use of water • Drainage and flooding	• Working closely with our Independent Environmental Advisory Panel (IEAP) • Improving the sustainability of our operations • Reducing our carbon footprint • Supporting the recycling of bioresources to land as a fertiliser • Supporting our catchment management and sustainable use of natural resources work • Partnering on initiatives to clean up our rivers and bathing/shellfish waters • Supporting our Welsh Water 2050 strategic responses • Driving the national research agenda through our strategic relationships with various environmental research bodies e.g. UKWIR and UKRI • Supporting our innovation agenda	• Monitoring our Welsh Water 2050 vision and its environmental strategic promises • Review of relevant strategies, e.g. catchment management • Investment approvals to safeguard the environment for future generations • Regular updates on our Biodiversity Plan and other environmental initiatives • Innovation strategy and delivery updates • Environmental and regulatory policy change • Regular reports from the IEAP to the Quality and Environment Committee • Engagement of the Quality and Environment Committee and individual Directors with NRW • Board visits to sustainable energy sites

OUR STAKEHOLDERS

STAKEHOLDER	THEIR INTERESTS	HOW WE ENGAGE	HOW THE BOARD ENGAGES
OUR SUPPLIERS Over 2,000 supply partners work with us to ensure we can deliver our essential services to customers > READ MORE ON PAGES 55 AND 89	• Fair payment terms and conditions • Long-term partnerships • Opportunities for collaborative development of innovative solutions	• Direct engagement • Continuation of capital and network alliances • Collaborative working groups • Supplier payment policy and Prompt Payment Code • Anti-bribery and corruption policy • Supplier Code of Conduct • Human rights and Modern Slavery Act 2015 compliance programme • Contract and supplier management framework	• Regular reporting from management on supplier payment performance • Reports on capital projects and relations with capital and network alliance partners • Meeting with leaders of the capital alliance partners when appropriate • Approval of Anti-Slavery Statement, Anti-Bribery and Corruption Policy and Supplier Code of Conduct • Review of outcomes of whistleblowing investigations and focus on continuous improvement
OUR INVESTORS As providers of long-term financing, our financial institutional stakeholders play a key role in supporting our not-for-shareholder model. The benefits of low-cost finance are then passed on to our customers in the form of lower bills and improved services. > READ MORE ON PAGE 109	• Strong financial discipline • Openness and transparency • Strong "Investment Grade" credit ratings • Sustainable long-term business strategy	• Direct engagement through regular meetings, calls and presentations to investors and credit rating agencies • Quarterly investor reports • Annual Report and half-yearly results • Corporate Website • Other Regulatory News Service announcements / press releases	• Investor programme led by the Chief Financial Officer and Treasury function • Annual Investor updates also attended by the Chief Executive Officer • Approval of quarterly investor reports • Regular updates from the Chief Financial Officer and Group Treasurer on treasury policy, funding strategies, credit ratings, interest rate management and gearing

STAKEHOLDER	THEIR INTERESTS	HOW WE ENGAGE	HOW THE BOARD ENGAGES
OUR MEMBERS Our Glas Members have oversight over the governance of our Group. > READ MORE ON PAGE 109	• Openness and transparency • Regular communications • Opportunities to develop understanding of our business and challenges • Clear purpose, vision and strategy focused on the wellbeing of our customers and the communities we serve	• Annual General Meeting and further half-year meeting • At least two further regional meetings, including site visits and workshops on particular issues, every year • 121 engagement sessions with Remuneration Committee Chair • Regular email circulars providing updates on what is happening in the business including formal announcements • Fortnightly media round up emails • New Member induction programme • Linkedin Members page	• Attendance at Glas Members' meetings • Hearing from Members on particular issues affecting their local communities • Ensuring the views of members are brought into the Board Room and considered in our decision making • Remuneration Committee Chair engagement on matters relating to Executive Remuneration
OUR REGULATORS AND POLICY MAKERS We maintain an open dialogue to help shape sound policy and develop balanced investment programmes which address the needs of all our stakeholders. > READ MORE ON PAGES 22 TO 23	• Open communication • Compliance with regulations • Effective governance • Advocate the customer agenda • Clarity of social purpose to support the delivery of societal value • Building resilience against long and short-term threats to our services • Our energy use and carbon footprint • Open and constructive collaboration	• Direct engagement with regulators both locally and nationally • Regular and open engagement with regulators • Continuous monitoring of internal control processes to ensure compliance with regulatory requirements • Annual and other periodic reporting • Responding to reports and consultations from regulators • Engagement with local authorities • Engagement with DEFRA and Welsh Government on key issues	• Chairman and Non-Executive Directors' attendance at meetings with our regulators and Government representatives, and at Ofwat's annual conference for Non-Executive Directors • Receiving presentations from the Drinking Water Inspectorate and Natural Resources Wales to the Quality and Environment Committee • Regular reporting to the Board on discussions with policy makers and key opinion formers including Ofwat, DEFRA, Welsh Government and Water UK

S172 STATEMENT

The natural focus of our business is on fulfilling our purpose and vision to meet the needs of our stakeholders – supporting our customers and working constructively with government and our regulators, while keeping our investors fully informed.

This section should be read in conjunction with the Strategic Report on pages 11 to 93. When making decisions, the Directors continue to have regard to the interests of the Company's employees and other stakeholders, including the impact of its activities on the community, the environment and the Company's reputation, as well as the desirability of the Company maintaining a reputation for high standards of business conduct when making decisions.

THE BOARD'S OBLIGATION TO PROMOTE THE LONG-TERM SUCCESS OF THE COMPANY

The Board is very aware of the obligation to take into consideration the interests of stakeholders in their decision-making, and the benefits of doing so, in order to achieve the Company's key goals as the custodians of assets over the long-term which enable the delivery of essential services to customers. We have set out below some examples of how the Board engages with our stakeholders.

As part of its involvement in the PR19 price review process, the Board was focused on understanding the views of the Company's key stakeholders as these would influence the delivery of essential services over the five-year period 2020–25 and the longer term. As we prepare for the PR24 price review process, the Board has reflected on past engagement exercises and opportunities for enhancement in the future.

ENGAGEMENT WITH STAKEHOLDERS

On pages 39 to 43 of our Strategic Report, we set out details of our principal stakeholders, how and why we engage and the outcomes of that engagement. The relevance of each stakeholder group may increase or decrease depending on the matter or issue in question, so the Board seeks to consider the needs and priorities of each stakeholder group during its discussions and as part of its decision-making.

The Board regularly hears directly from our principal stakeholders, including representatives of Government, our regulators and customers, and about how we engage with them. The stakeholder voice is brought into the Boardroom throughout the annual cycle through information provided by management, and also by direct engagement with stakeholders themselves. In the case of regulators, this can be through their attendance at Board meetings.

In the case of customers, during 2020-21 there have been opportunities for Board members to listen in to calls in our contact and operations call centre, and to meet members of the Customer Challenge Group (an independent group of customer representative organisations). The potential impact of the Board's decisions on our communities and customers is a key factor taken into account in decision-making, and views of stakeholders are highlighted in Board papers seeking approval.

ENGAGEMENT WITH THE WORKFORCE

The Board continues to enhance its methods of engagement with the wider workforce. The Chair and Non-Executive Directors regularly have opportunities to take part in informal meetings with managers and engagement champions across the business, without the Executive team being present, and the Executive Directors also participate in employee engagement sessions with the Executive team. These sessions are split between discussions on a pre-allocated topic of relevance to the Board in a future Board meeting, and more general discussions intended as an

opportunity for those attending to raise any concerns or issues. During 2020-21 we held the first engagement session with the Chair and some Non-Executive Directors with a specific focus on discussing the role of the Remuneration Committee and the link between pay and performance across the business. For further details about employee engagement please see page 108 of the Corporate Governance Report.

ENGAGEMENT WITH SUPPLIERS

We work with over 2,000 suppliers and contractors, and we have dedicated Framework Agreements and close relationships with suppliers in many areas of our business. We are continuing to enhance our contract and supplier management process, which has helped to formalise our relationships with other key suppliers, and we are in the process of rolling out our Supplier Code of Conduct which will underpin our relationships with suppliers.

We take our Anti-Slavery obligations very seriously - during the year key members of our Procurement and Legal team attended further training to highlight the risks in this area and the further steps we can look to take to ensure that unfair working practices are not a risk for our organisation. For further details please see page 89.

ENGAGEMENT WITH GLAS MEMBERS

Glas Members fulfil an essential corporate governance role. Members receive no financial recompense for their involvement in the Company and are drawn from a wide range of background and experiences, from across our supply area in Wales and England. During 2020-21 our two formal meetings in July and December 2020 were held remotely, and we also held a number of workshops on strategic issues, which were held remotely and were well intended by Members. Given our AGM was held remotely, we offered Members the opportunity to vote by proxy before the meeting, but we also enabled them to change their votes on all Resolutions before the meeting once they had heard from members of the Executive team on performance, and from the Chair of the Remuneration Committee on performance and pay.

ENGAGEMENT WITH INVESTORS

The Board is directly involved in engaging with the views of our investors. Formal communications with our bondholders are subject to Board approval, and members of the Board attend the annual investor meeting held in July every year, where investors have the opportunity to ask questions of the Chief Financial Officer and other members of the Board. During 2020-21 we held meetings with investors via video conference.

THE ROLE OF THE EXECUTIVE TEAM

The Dŵr Cymru Executive team is responsible, with the Chief Executive and Chief Financial Officer, for the day-to-day management of the Group, and 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, together, is comprised of those with responsibility for interacting with the Company's principal stakeholders.

The Board continues to oversee measures to ensure that stakeholder interests are always taken into account. Papers prepared by management for Board approval highlight relevant stakeholder considerations to be discussed as part of the debate when making decisions, in order to ensure that sufficient attention is given to stakeholder issues, and that the interests of all stakeholders and differences within these stakeholder groups (for example, the interests of our various customer groups) can be properly balanced.

S172 STATEMENT

BOARD DECISION MAKING IN RELATION TO OUR STAKEHOLDERS

Decision	Discussion topics	Action taken by the Board as a result of stakeholder feedback
Whether to charge 45,000 businesses forced to close during the pandemic lockdown	Decision taken not to charge any business customers affected by the lockdown situation.	Decision taken following discussion about the scale of business closure during the first lockdown, and feedback from the Customer Services teams on the nature of calls being received from businesses affected.
How to structure our charges	The Board considers the setting of charges for the following financial year in November and December each year.	Decisions on setting charges were influenced by feedback from CC Water on the proposed charges.
Application for planning permission for Lisvane and Llanishen reservoirs	We undertook a full consultation on the proposal to open a visitor centre at Lisvane and Llanishen reservoirs in North Cardiff, and the outline design for the new building.	The Board took into account the views of Cardiff Council, the Reservoir Action Group and Natural Resources Wales in reaching a decision to proceed to make an application for Planning Permission for the site.
To bring forward the application of funds identified to support social tariffs	The decision was taken to offer additional support to customers struggling to pay their bills, bringing forward funds earmarked for social tariffs to earlier in the five-year investment period.	The Board took into account feedback from Welsh Government as regards their views for company-financed social tariffs schemes, and from the economic regulator Ofwat on the impact of bringing forward this investment from later in the five-year regulatory financing period.
Carbon Reduction Strategy	The decision by the Glas Board to adopt a target of 90% reduction in carbon emissions by 2030 against the baseline 2010-11 emissions, and to aim to achieve 100% carbon neutrality by 2040. The targets for carbon reduction and ultimately for net zero carbon emissions, were adopted by the Glas Board in February 2021.	This decision followed the Welsh Government's declaration of a climate emergency in April 2019 and the publication of widespread and compelling evidence to support the need for urgent action. It also took into account extensive engagement with our independent environmental advisory panel (IEAP), comprised of a broad range of stakeholders, including environmental NGOs, Welsh Government, our Regulators, customer representatives, land and farming representation, industry and academics.

CHIEF EXECUTIVE'S MESSAGE

> “WHAT HAS BEEN VERY ENCOURAGING IN 2020-21 IS THAT WE HAVE CONTINUED TO DELIVER HIGH QUALITY SERVICES DESPITE THE IMPACT OF COVID-19.”

2,000

COLLEAGUES MOVED TO HOME WORKING

Net Zero

CARBON TARGET BY 2040

£353m

INVESTMENT PROGRAMME DELIVERED IN 2020-21

When it was announced in the Summer of 2019 that I would be taking on the role of CEO the following April, no one could have imagined quite what lay ahead, in terms of the challenges the business has faced over the past year. The hand over from my predecessor, Chris Jones, in Spring 2020 was against the backdrop of a succession of categorised Atlantic storms that had severely tested us, in terms of maintaining our essential services despite record-breaking floods in several regions across our supply area.

Almost in parallel to this, we began to see the Coronavirus threat coming ever closer to home on an almost daily basis. As the business was already "stood up" in full incident response mode as a result of the storms, especially Storm Dennis, it was an almost seamless transition to get ready to deal with Covid-19, and pretty much every working day throughout 2020-21, I have had the privilege of chairing our Crisis Management Team at their daily 08:30am call. It is our senior leadership team that has led our response to the pandemic and ensured that our essential services have continued to be delivered without hindrance throughout this very challenging period.

I have used the word “privilege” in the paragraph above deliberately, as I have seen first hand a fantastic "can do" approach that has transcended the whole business. There is no doubt that in the early days of the first national lockdown in March, we, in common with many other organisations, were finding our feet in respect of an unprecedented set of circumstances which cut across all aspects of our work and home lives. One of our very first actions was to turn to our Pandemic Emergency Response Plan, part of our wider emergency procedures and one frankly we had probably doubted would ever be used “in anger”. We owe much to a former Board Director, Dame Deirdre Hine, an eminent public health figure who first raised the prospect of formally planning for a medical pandemic in the mid-2000s, when she chaired our Quality and Environment Committee of the Board, which focuses on operational risks.

Much effort has gone into business continuity planning and we have put a lot of good practice in place throughout the year. All of our primary operational delivery teams from Directors to front line colleagues have been set up in "Red-Blue" structures to ensure separation of key individuals and to sustain expertise despite levels of absence across the organisation. We have also undertaken a series of simulation exercises to test the loss of up to 50% of key operational personnel on a regional basis. Whilst (thankfully) absence has never hit these levels, having these contingencies in hand provided considerable confidence, especially into the winter period when the emergence of variant strains of the virus saw increased numbers of positive cases in the business.

In those early days of the pandemic we made much of the increased importance of our essential water and sanitation services as the medical crisis began to grip the whole of society. This really resonated with our people and I am absolutely certain that this focus has been a critical part of their motivation in terms of both coping in uncertain times, and in ensuring that our performance has not suffered during a critical year. As an Executive team, we placed much emphasis on this, together with ensuring our front line teams had effective PPE and increased levels of management support to deliver day-to-day services in the colloquial "new normal" conditions.

Whilst our operational teams admirably rose to the challenge, I also want to fully acknowledge the contribution of our enabling support services, particularly those in emergency planning, human resources, procurement, safety, and transport services. All of these teams were on the front foot in terms of anticipating what was important and necessary to support colleagues working in our communities, either dealing with customers or protecting the environment. I would also highlight the huge effort of our IT Services team who magnificently accelerated our plans and deployment of equipment to

…OUR OPERATIONAL TEAMS ADMIRABLY ROSE TO THE CHALLENGE…

CHIEF EXECUTIVE'S MESSAGE

enable remote working by around 2,000 colleagues. The most graphic example was the move to get all our contact centre colleagues effectively working from home within a couple of weeks of the start of the first lockdown.

Many parts of the organisation also came together to support our own Company and at an industry level to prepare for and mitigate EU Exit risk. This pre-planning was effective and in particular our primary concern, the risk to imported chemical supplies, was effectively managed.

Supporting our colleagues though the pandemic has been a key priority for the Executive and our Communication team has been hugely innovative in helping us achieve this. "Themed" weeks targeting wellbeing for operational and home worker colleagues have become an effective way to engage and help sustain colleagues, especially in the lockdown periods which straddled the winter months. In addition to this we have undertaken three wellbeing surveys during the year to enable our senior leaders to understand colleagues' concerns and ensure effective assistance. Whilst feedback from the surveys has been overwhelmingly positive about the type and level of company support, we do not underestimate, or take for granted, the effort people have made to balance work and home lives during this period. We will need to continue to use contemporary and imaginative ways to engage with our people as we move into the new financial year, as we expect to remain in "Covid Secure" operation for some time yet.

Earlier, I touched on how our colleagues have taken much pride in maintaining service during the pandemic. I would also mention how they have taken the initiative to adapt and innovate, especially in terms of interaction with customers. Our water and sewerage service teams have made good use of technology, encouraging customers to share photos or film of service issues especially inside their homes or premises where Covid-19 transmission has been a risk, preventing us attending in person. Although this practice emerged through necessity, it has worked really well and has accelerated a new way to engage effectively with customers in their hour of need.

Throughout the pandemic we have continued to deliver our Year 1 AMP7 capital commitments, amounting to £353 million, in line with our original plan and delivering all key regulatory outputs. Notable in terms of new infrastructure investment has been completion of our new advanced anaerobic waste water sludge plants in Cardiff and Wrexham. This provides a high level of resilience to our sludge recycling activities and a further positive contribution in terms of green energy. We brought online the new Prioress Mill raw water pumping station near Usk, in south east Wales, securing water supply to large parts of Cardiff and Newport. We also made good progress with our Dam Safety programme delivering major upgrades to mitigate climate change risk at a range of locations across Wales.

Continuing to deliver the overall Capital Investment programme under these conditions is in no small part due to the great support we have had from across our supply chain partners. They have all adapted their working practices to deal safely with Covid-19 risk and have sustained this essential investment in our infrastructure. Our capital and operational contract partners also play a key part in our contingency plans for the pandemic. Keeping the investment programme going has also meant that if necessary we are able to redeploy these resources quickly to maintain water and sewerage services. In return for this, we supported our suppliers through this difficult time by helping their cash flow with initiatives such as weekly payments and prompt settlement of invoices. This mutually supportive approach has provided an added level of security to our business continuity plans.

One upside of the pandemic has been that we have accelerated our Smarter Ways of Working programme. Originally this was a two-year programme, aimed at better utilisation of our accommodation and embedding more modern working practices, in particular remote working. Earlier, I touched on the rapid deployment of IT technology to enable home working early in 2020 in response to requirements of the national lockdown. In light of this, we have in the background completed a review of our office estate, and this has led to a decision to close our former head office at Nelson as it accommodated colleagues primarily engaged in enabling support activities, all of which can now predominantly be undertaken remotely. More widely we have made good progress in terms of readying remaining office space for new ways of post-pandemic working, including moving to a hybrid approach with rotation of time in the office and working from home. We have agreed this approach with our people and will implement it fully when safe to do so, hopefully from early 2022.

What has been very encouraging in 2020-21 is that we have continued to deliver high quality services to our customers, despite the impact of Covid-19 and our fair share of severe weather events such as Storm Bella which hit us in early 2021. Our key measure of customer satisfaction, C-MeX, saw us achieve fourth place across all companies in England and Wales.

In the last year we have made good progress against challenging AMP7 non-financial targets - in our clean water business these covered leakage, drinking water quality, and supply interruptions. As regards the environment we recorded our lowest ever level of waste water pollution incidents and a high standard of compliance in terms of waste water treatment works performance. There were a few measures where we didn't meet our target, most notably internal sewer flooding, due largely to an event of severe weather which resulted in 67 properties being flooded in Newport during December. We are on target to achieve our AMP7 target for the reduction in numbers of lead water supply pipes across our supply area. We await Ofwat's assessment of our overall position under the ODI mechanism.

We did see Covid-19 adversely impact a small number of measures, most notably water supply per capita consumption, as a result of hand washing, but we recognise we have more to do against this measure even before the pandemic impact is taken into account. Some of our wider social value measures such as educational and recreational activities have not been met due to closure of facilities as a result of the lockdowns.

The impact of Covid-19 has also been felt in relation to the extent of progress of our Zonal Studies programme to upgrade and replace iron mains in areas experiencing high levels of iron-related discolouration. We also know we still have more progress to make in terms of Customer Acceptability of water, especially discolouration issues which are attributable to large areas reliant on iron mains and higher water pressure within our supply area, compared to companies operating in England.

Our overall financial performance was within our Totex target, however responding to Covid-19 resulted in an additional £34 million operating costs. Whilst we have yet to see the full effect of the pandemic on the economy, we incurred a bad debt charge of £13 million as a result of the Covid-19 impact. Shortly after the financial year end we successfully issued £300 million in new bonds, which received a positive response from investors.

During the year we also agreed our long-term carbon reduction strategy, with a commitment to achieve "Net Zero" by 2040. Building on our achievement of reducing carbon by 80% over the last 10 years, our long-term plan provides a solid basis to tackle the more challenging areas such as fugitive emissions from our waste treatment activities. Preliminary work in this area has included feasibility studies to convert some of our advanced digester plants to produce fuel grade hydrogen starting in Cardiff in 2025.

Despite the challenges of 2020, preparing and investing for the long term remains a key priority for us. We may have only just closed the door metaphorically on the PR19 process, but we have already started our preparation for PR24 and AMP8. A major element of ensuring we plan effectively for the medium and long-term has been the formation of a new Asset Planning team and, in support of this, putting in place external consultancy resource with global expertise in this specialised area. We have a clear long-term vision in Welsh Water 2050 and one of the tasks which is currently underway is to review how this will need to be adapted in light of the events of the last year. Our ambition for the next regulatory review period is to ensure we put forward a strong case to improve resilience of our services not only for current customers but for future generations. Taking this longer-term view is very much embedded in the way we think and operate as a business and is aligned with the aspiration of the Well-being of Future Generations (Wales) Act.

Overall, 2020-21 has been a challenging year for all of us in the business, but it has really brought the best out of the people in the organisation. As an Executive team we have expended every effort to help and support colleagues through an unprecedented pandemic. On top of that there has been a number of severe weather events which have seen further record-breaking levels of rainfall and flooding across our operating area. Despite this, our teams have responded incredibly well to all that's been thrown at them. While not all areas of our performance metrics are where we want them to be, overall we have delivered a solid underlying service to our customers. Alongside this we have not been distracted from some of our long-term priorities and are making good progress towards meeting them, especially in terms of clarifying our priorities for the price review process which will set charges for the next investment period, AMP8 (2025–30).

Peter Perry
Chief Executive Officer

3 June 2021

SERVING OUR CUSTOMERS AND COMMUNITIES

CHIEF EXECUTIVE'S Q&A

PETER PERRY, CHIEF EXECUTIVE OFFICER

“ FROM THE OUTSET, WE'VE BEEN CLEAR WITH COLLEAGUES THAT THEIR HEALTH, SAFETY AND WELLBEING HAS BEEN OUR NUMBER ONE PRIORITY. ”

Q HOW HAS YOUR FIRST 12 MONTHS BEEN AS CEO?

A It has certainly been very different to what I anticipated when it was announced in June 2019 that I was taking over as Chief Executive. As I was already embedded in the Company as Managing Director, this ‘lead in’ time gave me some time to think and prepare for my new role and restructure the Executive team, but also to consider how we could deliver our most ambitious ever Business Plan for 2020-25. When the reports of Covid-19 surfaced in early 2020, we mobilised early so that we were well prepared when the lockdown was introduced in March 2020.

Q HOW HAVE YOU AND YOUR TEAM RESPONDED?

A As an Executive, we meet every morning as part of the Crisis Management Team to ensure that we are updated on the performance of key business areas, can consider the latest impact of Covid-19 on our resources and can also understand the changing social restrictions. This has ensured that we are abreast of the operational issues, which then enables us to prepare and plan for the more strategic issues that we face. This then feeds down to our Gold Command structure consisting of Heads of Service who get together daily. Our priority has been both keeping everyone safe and empowering them to make the correct decisions. As a sector, we are experienced in responding to incidents. We have highly capable people, with a clear vision and a good culture. They've made good decisions that have allowed us to steer a steady ship through what have been some choppy waters.

Q HAS IT BEEN DIFFICULT TO LEAD COLLEAGUES ‘REMOTELY’ DUE TO SOCIAL RESTRICTIONS?

A In all honesty – yes. As a leader, I believe that leading people is a privilege and I've always put a lot of emphasis on getting out and about and meeting as many colleagues as possible across the business. This provides unrivalled insight and an opportunity to ensure we understand what's happening on the ground. When restrictions have been temporarily eased, I have managed to visit colleagues at different sites but such opportunities have been limited. Nonetheless, we have regular monthly company-wide calls to keep everyone informed and we moved our annual Roadshow event – where the Executive and I spend a week travelling our operating area hosting over 20 town hall-style catch-ups with colleagues – online, which was well received. It doesn't come close to meeting colleagues in person and I hope to be doing more of this during 2021.

Q HOW HAVE YOU SOUGHT TO ENGAGE COLLEAGUES AND LOOK AFTER MORALE?

A From the outset, we've been clear with colleagues that their health, safety and wellbeing has been our number one priority and we would not do anything which would compromise that. During such an uncertain time, we've also sought to provide clarity and consistency to colleagues and been open and honest in our communications. It's been important to acknowledge the difficulties they are facing both at home as well as at work. We've conducted several Wellbeing Surveys which have helped us gauge how colleagues are feeling and these findings have informed the measures we have used to support everyone in terms of their health and wellbeing.

Q WHAT DO YOU THINK THE NEW NORMAL IS GOING TO LOOK LIKE?

A There's no doubt that's what happening now will have a tremendous impact on the way our business and the sector will operate for years to come. The new normal is a dynamic, ever-changing state where businesses must expect the unexpected. At the same time, there is an increasing expectation that the Company will better understand the needs of customers and the broader environment so that it can provide real leadership and deliver better 'value' to the society in which it operates. We will need to become more agile to respond to changing customers' needs and to continue to work in partnership with other organisations. Having recently become chair of Business in the Community Cymru, I can see the potential for Welsh Water to work with other businesses and partners from different sectors so that we come together to deliver a lasting, meaningful and positive impact on communities.

SHORT-TERM OPPORTUNITIES AND CHALLENGES

	Opportunities and Challenges	Our Response
Covid-19 pandemic	• Higher unemployment rates and increasing poverty as a result of the pandemic restrictions, impacting customers' ability to pay their water bills • Changes to our operational working practices as a result of public health risks caused by Covid-19	We have taken a number of measures to ensure that customers who are vulnerable or in debt are supported throughout this time (see page 55) and we will continue to work with them as any recessionary impact is felt during 2021-22. We have accelerated our digital transformations as the shift to remote working presented opportunities for digital upskilling, and developed new working practices and initiatives to protect employees (see page 55).
EU Exit (Brexit)	• Implications for the supply chain, including increased costs for some goods (such as chemicals, parts and materials), and delays from customs checks • Restricted access to EU labour markets	A key focus of the year was planning for a potential 'no-deal' EU exit situation. With the full engagement of the Board, we have continued in Spring 2021 to work with companies across the sector as well as with regulators and Welsh and UK Governments to ensure that there is a coordinated approach on supplies such as chemicals which are needed across the industry. We are continuing to support colleagues originating from the EU to apply for "settled status" and reassure them that we value their input to the Company.
Environmental impact	• Increasing rates of new policy and regulation on environmental matters following EU Exit • Greater awareness and interaction from customers and members of the public during 'lockdown' periods	We have played a key role in responding to key consultations and liaising with DEFRA and Welsh Government during this period of change. We are working with our environmental regulators to play our part in addressing pollution from phosphates in rivers and the operation of Combined Storm Overflows
Extreme weather events	• Challenges caused by extreme weather events - a prolonged dry spell in the spring/early summer) followed by Storms Ellen and Jorge in late summer/autumn 2020, which had a significant impact on our customers and communities and widely affected our assets	We have improved the flooding resilience for critical assets such as Mayhill Water Treatment Works and Whitborne Wastewater Treatments Works, and with our contact centre teams working from home, we now have much greater service resilience than we did during Storm Emma in 2018. To improve operational resilience, we have delivered capital investment schemes such as to Bewdley Bank service reservoir in Hereford and Prioress Mill pumping station in Monmouthshire.
Implementing the outcomes of the PR19 Price Review – lower bills but less investment	• Costs efficiencies required by the price determination for the five-year period 2025, whilst we continue to invest to ensure service performance for customers and maintain the long-term resilience of assets	We have reviewed budgets for all business functions to achieve a saving year-on-year. We are working with our key suppliers, such as our Capital Alliance and Water Network partners, to find innovative ways of improving efficiency while maintaining standards of service.
Water transfer	• Tackling the challenge of water resource shortages in the South and East of the UK	In 2020 the Environment Agency published Meeting Our Future Water Needs: A National Framework For Water Resources. It marked a move towards a regional structure for water resources planning. We are part of Water Resources West which considers new approaches to water resource planning and the benefits to our customers of water trading options.
Diversity and inclusivity	• In common with many companies in the water sector, historically we have had a predominantly white male workforce	We want our workforce to be as diverse as the communities we serve, and to be a truly inclusive work environment. We have established a Re:Think group with colleagues to help consider ways to become more inclusive and representative and to implement positive ideas for change, with the support of the Executive team.

CULTURE IN ACTION 2020-21 (COVID-19)

Our Employees: The impacts of the pandemic Covid-19 have been felt across our workforce and in every area of our business. For many of the Company's office-based workers, and in particular for nearly all of our contact centre workers, Covid-19 meant a complete switch to home-based working for an extended period, starting at the end of March 2020. Strong and constant support from colleagues in our IT Services team has helped to ensure that this switch to home working has had minimal impact on customer service. We have found new ways to support remotely-based colleagues, particularly those who have suffered loneliness or have also had to undertake home-schooling for extended periods, while ensuring we can maintain quality standards in everything we do for customers.

For depot and field-based colleagues, the impact of Covid-19 has been felt in changed working practices. From April 2020 we ceased all visits inside customer properties except for emergency callouts. However, our sewerage network operators have continued to work within property boundaries and we have continued to take samples from customer properties where requested on an emergency basis. We have updated our risk assessments and provided guidance to manage the risks and our Health and Safety team has liaised with government and sector representatives to ensure that all of our practices embody current best practice. Our sampling teams have adapted their schedules to take samples from additional sites such as service reservoirs instead of customer properties.

SMARTER WAYS OF WORKING

In 2019 we launched our Smarter Ways of Working Programme with the ambition of transforming the way we use our offices, introducing agile working arrangements and reducing our overall accommodation footprint. With the onset of the pandemic, the programme was expedited as the vast majority of office-based colleagues moved to work from home. As part of this initiative, we took the decision to close our head office at Nelson, moving the registered office to our Linea (Cardiff, St. Mellons) office. We then commenced the redesign work for our core buildings in the South East, Linea and Ty Awen (Newport) as well as our new building in the West, Ty Tywi (Carmarthen). As part of this process we engaged with colleagues from all teams across the business that use the buildings and a clear theme of 'work from home, collaborate in the office' was established, based on their feedback. Ty Tywi is now open and being used in a Covid-secure manner and we are in the process of confirming the future shape of our South East Hub, including Linea and Ty Awen. We have also ensured that our building designs are inclusive, with engagement undertaken with different faith and disability groups, along with returning mothers, as part of the process. Following completion of work in the South East we will be taking the same approach to our other geographical locations, such as in North Wales.

Our Suppliers: We have actively engaged and supported our suppliers, who have played a key role in helping us maintain our services. We have reduced processing times for payment of invoices, shared work plans and where possible we have accelerated investment to give suppliers continuity of work . We have also continually assessed critical suppliers and remain in regular dialogue to understand their business stability and mitigation strategies.

Our Customers: To help maintain our essential services to customers, we rapidly implemented our contingency plans to avoid any disruption to supplies and introduced new working practices to ensure that customers could still contact us and that we could resolve any issues. These new ways of working involved only visiting households for emergency purposes and moving to online consultations with customers to discuss less urgent work. We temporarily added over 340,000 customers in vulnerable circumstances to our Priority Services Register so that they could receive extra support during the pandemic. We agreed flexible payment arrangements with customers struggling to pay their bills while also suspending charges for around 45,000 businesses during the UK-wide lockdown.

For those customers who need to contact us, we have continued to improve our services to make it as easy as possible for them. This now means that they can:

- track appointments online so that they are aware when we will be arriving;
- make changes to their accounts online; and
- register to receive update alerts to inform them when and why we may be working in their area.

Changing customer expectations, the digital revolution and demographic and lifestyle change are all leading us to develop our customer service further so that we can maintain our high standards of service. We will continue to harness technological change to develop a more personalised service for customers through their preferred contact channel.


Ty Tywi, Carmarthenshire

OUR PERFORMANCE

CHALLENGES

At the beginning of the year, we had to source additional Personal Protective Equipment (PPE) for colleagues amidst concerns about supply chain reliability. We were also dealing with increased absence levels, and uncertainty about the terms and timing of EU Exit.

During the year, and despite no traceable workplace transmission issues, we sustained some significant absence levels (primarily due to precautionary self-isolation, shielding and other ill-health issues) in particular in smaller teams and in specialist roles, and sometimes in geographically remote locations. This required us to implement Business Continuity Plans to ensure uninterrupted services to our customers.

Many colleagues were directly affected by sickness, heightened anxiety, loneliness and/or isolation, and/or bereavement. In many cases, they were supported by other colleagues and managers, including our Wellbeing Champions across the business, as well as by our Employee Assistance Programme.

In terms of our commercial operations, our Cardiff Food Waste plant was affected by reduced collections of food waste by the Cardiff and Vale of Glamorgan local authorities during the first lockdown. The impact of this was lower levels of gas production at the plant and reduced electricity generation.

IMPACT ON TARGETS

Per-capita consumption The combined effect of the initial pandemic restrictions in Spring 2020, and public health advice on hand washing as a result of the pandemic, together with the prolonged period of warm dry weather, meant that the amount of water supplied during 2020-21 was 12.5% greater than in 2019-20. Changes in working patterns and increased time spent at home led to increased consumption from customers. The higher demand for water also led to increased leakage across our distribution system, and increased costs for our teams in managing this and in undertaking capital works to ensure security of supply to customers was maintained.

Visitors to recreational facilities As a result of the pandemic restrictions, numbers of visitors to our recreational facilities, in particular our visitor centres at Llandegfedd, Llys-y-Frân (which has been closed for redevelopment), Llyn Brenig and Elan Valley, were severely reduced in 2020-21 (294,763 visitors against a target for the year of 560,000).

Community education In 2020-21 we have not been able to offer our outreach or in-house community education services to the children who would usually benefit from these opportunities, across our supply area. For the latter part of the year, we introduced online education provision, reaching 5,834 children against an original target for the year of 70,000. We also innovated to continue to deliver the outcomes of our education programme including the development of a 360-degree virtual classroom and home learning packs, reaching a total of 68,629 participants.

Bad debt As a consequence of the financial impact of the pandemic on many of our customers, bad debt increased over the year from £25 million in March 2020 to £33 million in March 2021 (against a target of £19 million) representing 4.2% of total revenue billed in 2020-21.


Lower Neuadd Reservoir, Merthyr Tydfil

AMP7 PLAN

Overleaf is a summary of how we are performing against our 18 key performance targets for AMP7 (2020-25), shown against (a) our internal business plan (IBP) targets for 2020-21, and (b) the relevant target for 2020-21 from the Final Determination (FD) set by Ofwat at the end of the PR19 price review process, for AMP7.

In some cases the IBP target for 2020-21 is either more stringent than the FD target, where the Board has set a higher target based on performance in 2019-20, or lower than the FD target, where the latter is not considered realistically possible for the year's performance. This applies to the target for Water Supply Interruptions where the FD had standard targets applied across the sector, and to Acceptability of Drinking Water where Ofwat intervened and applied a target based on the performance of other companies across the sector, irrespective of the company-specific geographical or other factors. In these cases, our IBP is as challenging as the Board considers realistic.

More detailed reporting on our overall 56 performance targets is set out in our Annual Performance Report which will be available from mid-July 2021 at **dwrcymru.com/annualperformancereport**. Of the total 56 performance commitments (PCs), 15 are common measures across all companies and the remainder are bespoke measures for Welsh Water.
The 56 PCs comprise:

- 25 financial PCs (i.e. these have either rewards/penalties applying in the year depending on our performance to meet the Ofwat FD target for the year or the end of the AMP);
- 25 reputational PCs (i.e. no reward/penalty is applicable, but we strive to meet the target set for the year); and
- Six expenditure delivery PCs (i.e. there are penalties both for late delivery during the AMP and non-delivery at the end of the AMP of certain investment programmes 'ringfenced' under the FD).

AMP7 PLAN

The table below shows the current year and prior year's performance, gives an indication of Ofwat's Outcome Delivery Incentive (ODI) outperformance or underperformance payments applicable to the performance in 2020-21, and sets out our assessment of whether the Company is on target to meet Ofwat's Final Determination for the relevant target at the end of AMP7 (2025). Definitions of all the Performance Commitments are included in the Glossary on page 209.

KEY PERFORMANCE COMMITMENTS

	2019–20	2020-21			ODI OUT/ UNDER PERFORMANCE PAYMENTS	COMMENTS
Performance Commitments	ACTUAL	ACTUAL	IBP	FD		
Water quality compliance (CRI)▲ © Estimate figure awaiting confirmation	3.97	4.17	2.60	0	**ODI penalty of £1.059m**	32 water quality compliance failures in 2020-21 compared to 60 in 2019. **2020-21** Met IBP target ✗ **2024-25** On track to meet FD Target ✗
Water supply interruptions▲ Reported as mm:ss	17:46	11:05	11.12	6:30	**ODI penalty of £2.796m**	11:05 minutes lost per customer - includes the impact of all reportable planned, unplanned and third-party events recorded as three hours or more. The main causes of interruptions are network issues, particularly burst mains, and some impact from high demand. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✗
Acceptability of drinking water © Contacts per 1,000 population	2.80	2.70	2.72	2.42	**ODI penalty of £1.107m**	2,020 performance equates to 8,482 individual contacts (IBP target equates to 8552) This is the second consecutive year that our performance has been within target. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✗
Mains repairs▲ Per 1,000km of pipe	138.8	140.2	133.0	138.9	**ODI penalty of £0.133m**	2020-21 performance of 140.2 is an increase of 1% for repairs per 1,000km pipe from the previous year, attributable in part to increased demand during the lockdown periods, and to cold weather events. **2020-21** Met IBP target ✗ **2024-25** On track to meet FD Target ✓

	2019–20	2020-21			ODI REWARD/ PENALTY	COMMENTS
Performance Commitments	ACTUAL	ACTUAL	IBP	FD		
Treatment works compliance▲ © % compliance Provisional figure awaiting confirmation from NRW	98.18	99.66	98.70	100.00	£Nil ODI	99.66% represents two non-compliant WwTWs out of a total of 600 permitted treatment works (WwTWs and WTWs). There were no non-compliant WTWs. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✗
Pollution incidents▲ © Per 10,000km of sewer Provisional figure awaiting confirmation from NRW	26.20	21.46	25.00	24.51	**ODI reward of £0.543m**	Performance against this measure was improved for 2020-21 but we are awaiting final confirmation of the figures from NRW. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✓
Leakage▲ 3 Year Average % Reduction	-	2.2	1.8	1.8	**ODI reward of £0.114m**	The leakage target for the year was met despite restricted interaction with customers during pandemic restrictions and high demand. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✓
Per capita consumption▲ 3 Year Average % Reduction	-	(5.2)	1	1	**ODI penalty of £1.310m**	Average Consumption increased during 2020-21, in part as a result of the government focus on hand washing as a means of combating the spread of Covid-19, and also because the periods of "lockdown", during which many families were at home, coincided with a prolonged spell of warm, dry weather which led to increased water use. **2020-21** Met IBP target ✗ **2024-25** On track to meet FD Target ✗

Performance Commitments marked ▲ were applied to all water companies across England and Wales, despite differences in geography and other circumstances between companies, which mean that performance outcomes will differ.

© = calendar year measure

AMP7 PLAN

	2019–20	2020-21			ODI REWARD/ PENALTY	COMMENTS
Performance Commitments	ACTUAL	ACTUAL	IBP	FD		
C-MeX▲	1st	4th	Top 3	n/a	**ODI reward of £2.018m**	Customer Measure of Experience - Ofwat's assessment of customer satisfaction. We missed our IBP target of coming within the top three of all water and sewerage companies in England and Wales. **2020-21** Met IBP target ✗ **2024-25** On track to meet FD Target **N/A**
D-MeX▲ Data not available from Ofwat/Water UK until mid-June	9th	-	Mid-table	n/a	**Not yet available**	Developer Measure of Experience - Ofwat's measure of customer service for new connection customers. This is measured across the sector, although the regulation of development differs in Wales in some important respects. **2020-21** Met IBP target to be confirmed ✗ **2024-25** On track to meet FD Target **N/A**
Business customer satisfaction Average score out of 5 from quarterly surveys	4.4	4.4	4.4	4.5	**ODI penalty of £0.125m**	A market researcher, Accent, undertook a random sample of 250 surveys for our non-household customers in each quarter for 2020-21. The average of these scores for the year was 4.4 out of 5. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✗
Priority services for customers in vulnerable circumstances ▲ (% reach)	4.0	5.5	4.3	4.3	Reputational Measure - no ODI	We temporarily added over 340,000 customers in vulnerable circumstances to our Priority Services Register so that they could receive extra support during the pandemic. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✓

	2019–20	2020-21			ODI REWARD/ PENALTY	COMMENTS
Performance Commitments	ACTUAL	ACTUAL	IBP	FD		
Internal sewer flooding▲ Measured per 10,000 sewer connections	1.75	2.05	1.69	1.68	**ODI penalty of £1.581m**	Performance was impacted by a severe weather event on 23 December 2020 which particularly affected customer properties in Newport, Gwent. **2020-21** Met IBP target ✗ **2024-25** On track to meet FD Target ✗
Sewer collapses▲ Measured per 1,000km of sewer	7.23	7.69	7.20	7.20	**ODI penalty of £0.069m**	The pandemic restrictions impacted asset maintenance to proactively identify obstructions and defects before they become service failures. **2020-21** Met IBP target ✗ **2024-25** On track to meet FD Target ✓
Total complaints Measured per 10,000 connections	-	122.1	142	UQ	**ODI penalty of £0.054m**	Our 2020-21 performance equates to 18,628 household complaints in the year. Performance is not measured on an equivalent basis in the prior year. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✗
Company level of bad debt % uncollected revenue as a proportion of the total revenue billed	3	4.2	2.3	2.3	Reputational Measure - no ODI	**2020-21** Met IBP target ✗ **2024-25** On track to meet FD Target ✗
Unplanned outages This is a measure of asset health for water abstraction and treatment activities	0.13	0.73	2.00	2.34	£Nil ODI	Our performance in the year has improved against both our IBP target and the FD target. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✓
Reportable injuries The total number of injury reports under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) for employees and contractors	8	6	9	9	Reputational Measure - no ODI	The reduction year on year beat both the internal and FD Target and was our best ever performance for reportable injuries. **2020-21** Met IBP target ✓ **2024-25** On track to meet FD Target ✓

Performance Commitments marked ▲ were applied to all water companies across England and Wales, despite differences in geography and other circumstances between companies, which mean that performance outcomes will differ.

© = calendar year measure

FINANCIAL REVIEW

REVENUE

Glas Cymru's turnover in the year to 31 March 2021 was broadly in line with the prior year at £778 million (2020: £779 million): growth and price increases have been offset mainly by the impact of Covid-19 (although we are currently planning to recover our revenue shortfall in 2022-23 under Ofwat's regulatory mechanism).

OPERATIONAL ITEMS

Glas Cymru incurred total operational costs (excluding exceptional items, infrastructure renewals expenditure on maintaining our underground pipe network, and depreciation) of £329 million (2020: £326 million). This represents broadly stable performance, excluding the impact of Covid-19 related costs which have been reported as exceptional in the year. It reflects general inflationary cost pressures partially offset by savings from ongoing efficiency initiatives. In addition, many of the new ways of working introduced in response to the pandemic have delivered sustainable cost savings. All water and sewerage companies use a lot of power for treatment and pumping processes and the undulating topography across Wales makes this a particular challenge for us. Power costs were £46 million (2020: £46 million). We strive to generate our own power where possible, with an increase in power sales by £2 million on last year (2021: £12 million, 2020: £10 million) from our gas-to-grid facility at Five Fords treatment works which now incorporates a fully operational advanced digestion facility. Future power prices are uncertain and to help ensure that our operations remain financeable we have forward purchased the estimated power requirements of the business for the current AMP through to 2025. Water and sewerage companies are not permitted to disconnect supplies to non-paying domestic customers and, as a result, cash collection will always be challenging. The ongoing high priority attached to debt recovery in the Group's retail business has resulted in very little deterioration in overall cash collection rates, exceeding expectations given the Covid-19 pandemic, and our underlying bad debt charge (excluding the impacts of Covid-19 on both years) was broadly in line with last year. We hold around 7,000 charging orders, secured on property owned by customers, providing security over £12 million of our customer debt as at 31 March 2021. We expect collections to deteriorate as a result of the economic impact of the Covid-19 pandemic and we have factored this into our year-end provision for overall bad debts.

EXCEPTIONAL ITEMS

In the year to 31 March 2021 we have recognised exceptional items totalling £34 million. These represent additional costs incurred as a result of the Covid-19 pandemic: due to their size and nature these have been disclosed separately on the face of the income statement. The costs include additional bad debt charges (£13 million), personal protective equipment (£8 million), additional National Grid charges (£3 million) and the incremental cost of putting in place increased hygiene measures and deep cleaning (£6 million). A further restructuring cost following a reassessment of the level of the restructuring provision established last year has been disclosed as exceptional (£4 million). The exceptional charge of £11 million in the year to 31 March 2020 related to the establishment of a restructuring provision associated with a headcount reduction of some 200 over the period to 31 March 2025.

OPERATING PROFIT

Operating profit is lower than the prior year at £7 million (2020: £30 million), principally reflecting the exceptional items noted above. An £18 million increase in the depreciation charge on our operational fixed assets has been offset by a £22 million reduction in infrastructure renewals expenditure (IRE). The depreciation charge is higher than the prior year as the asset base is revalued at each balance sheet date to the Company's regulatory asset value as set by Ofwat and which rises in line with CPIH inflation. IRE has fallen by around 20% as a result of a different mix of activity in our capital programme.

FINANCING COSTS

Net interest payable of £121 million (excluding accounting gains and losses on derivatives noted below) was £37 million lower than the previous year, primarily as a result of lower Retail Prices Index (RPI) inflation. The Group has a number of derivative swap contracts which were entered into when Dŵr Cymru was highly geared and which fix or inflation-link the cost of debt. While all of these are effective commercial hedges, most do not qualify for hedge accounting under IFRS 9. Changes in market values create volatility in the income statement and net fair value losses in 2020-21 amounted to £7 million (2019-20: net losses of £48 million). There is, however, no impact on cash flows: the Group intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such gains and losses will revert to zero. On 31 March 2021 we repaid £325 million of Class B1 bonds with a fixed coupon of 6.907% which reached maturity as at that date. Following Board approval on 4 March 2021 and investor roadshows held in late March, shortly after the financial year end we successfully priced £300 million of subordinated (junior) bonds at a fixed rate of 2.375%. Formal issuance and cash drawdown took place on 9 April 2021. In line with the Group's AMP7 financing plans, on 6 April 2021 we also entered into contracts to swap the fixed interest rate on the new bond to RPI -0.1493% with effect from the drawdown. This new issue effectively and efficiently ensures that the Group is fully funded to the end of the current regulatory

THE NEW BOND ISSUE… STRENGTHENS AN ALREADY ROBUST LIQUIDITY POSITION…

FINANCIAL REVIEW

period in 2025 and strengthens an already robust liquidity position, to enable us to react to ongoing uncertainty in the short-to-medium term. In addition, during 2020-21 we also renegotiated our revolving credit facilities, each for two years with a one-year extension option. These facilities have also been increased, increasing the total available from £170 million to £200 million. All currently remain undrawn.

LOSS BEFORE TAX

The consolidated income statement shows a loss before taxation of £121 million (2020: loss of £176 million) which takes into account the variances discussed above, including depreciation and fair value movements.

TAXATION

The Group has historically invested, and for the foreseeable future will continue to invest, to improve the quality of our services for customers. This investment may be in the form of capital expenditure, for example improving our treatment works and network of pipes and pumping stations. By investing heavily in capital expenditure, we are able to benefit from capital allowances, a Government tax relief which aims to stimulate this type of investment. Capital allowances can be deducted in calculating the Group's taxable profits in place of accounting depreciation. In the years following investment, capital allowances are typically higher than the accounting deprecation, reducing our taxable profits. This delays corporation tax payments to future periods and therefore the group did not have a corporation tax liability for the period. The high level of capital investment planned for AMP7 (£1.8 billion over the period 2020–2025) means that the Group does not expect to pay corporation tax until AMP8 (2025–2030) at the earliest.

The Group seeks to utilise available tax reliefs and incentives put in place by the Government in order to maximise funds available to benefit our customers. The Group has claimed a tax credit of £1 million (2020: £1 million) under the Government's Research & Development Expenditure Credit initiative, which has been included within operating expenditure (see Note 3 to the financial statements).

The total tax credit in the income statement is £22 million (2020: £7 million credit). The credit for the year ended 31 March 2020 was lower as it included a charge of £23 million as a result of deferred tax being recalculated at 19% (previously 17%) following the increase to the corporation tax rate announced in the 2020 Budget. A reconciliation is provided in Note 5.

GROUP TAX STRATEGY

The Group is committed to acting in an open and transparent way in respect of its tax affairs. The Group pays a range of taxes, including business rates, employer's National Insurance and environmental taxes. The Group does not enter into artificial tax arrangements, use tax havens or take an aggressive stance in the interpretation of tax legislation. Full details of the Group's Tax Strategy are published annually on our website at **dwrcymru.com/taxstrategy**. The Group has complied with the Tax Strategy for the year ended 31 March 2021.

CAPITAL INVESTMENT

Glas Cymru's strong financial position has been built up over the last 20 years and provides a stable base from which we can respond positively to the challenges of economic uncertainty and drive forward our large, long-term capital programme. Glas Cymru works with an alliance of contracting partners to deliver the capital investment programme at the best value for money for customers. Total net capital expenditure during the year (including infrastructure renewals expenditure) was £353 million (2020: £456 million).

PENSION FUNDING

The statement of comprehensive income reports a defined benefit pension scheme actuarial loss of £1 million (2020: loss of £1 million) and the balance sheet liability as at 31 March 2021 was £90 million (2020: £87 million). This valuation is on an IAS19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme was completed as at 31 March 2019 and projected a deficit of £12 million which was subsequently mitigated by recovery payments totalling £12 million made during the year ended 31 March 2020. Exposure to any significant additional future liabilities has been mitigated by the closure to new accrual of the majority of sections of the scheme with effect from 1 April 2017.

NET ASSET POSITION

The consolidated balance sheet shows net assets of £1,067 million at 31 March 2021 (2020: £1,144 million). The net book value of property, plant and equipment has risen by £59 million (1%), a consequence of revaluing the Group's asset base to Dŵr Cymru's regulatory capital value. Cash balances are £221 million (67%) lower than the prior year, reflecting net operating cash outflows and financing activity (with £300 million of additional financing drawn shortly after the year-end, on 9 April). The net deferred tax liability has decreased by £17 million (3%) principally as a result of the revaluation of fixed assets as noted above. Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £1,549 million (2020: assets of £1,619 million).

LIQUIDITY AND FINANCIAL RESERVES

Glas Cymru aims to offer a secure, low-risk investment to debt investors. By building and maintaining a strong financial position, we intend to keep our borrowing costs low, enabling us to finance future investment efficiently. On Glas Cymru's acquisition of Welsh Water in May 2001, gearing (net debt/RCV) stood at 93%. Since then, the financial position has improved steadily. Gearing to RCV had fallen to 60.1% by 31 March 2021 (2020: 59.5%) and "customer reserves" (RCV less net debt) were £2.4 billion (2020: £2.4 billion). As at 31 March 2021, the Group had available total liquidity of £421 million, including cash balances of £221 million; this was increased by £300 million on 9 April 2021 following the drawdown of the recent junior debt issue.

CREDIT RATING AND INTEREST RATE MANAGEMENT

Glas Cymru credit ratings are amongst the strongest in the UK water sector, reflecting the Group's high level of creditworthiness. All three credit rating agencies have issued rating updates following the Group's exposure to the Covid-19 pandemic (which they note is not material to Glas Cymru's creditworthiness). On 5 March 2021 S&P reaffirmed the ratings of the senior bonds as A- and the junior bonds as BBB. On 26 January 2021 Fitch confirmed the rating of the Group's senior bonds as A and of the junior bonds as BBB+. On 2 March 2021 Moody's confirmed Dŵr Cymru Cyfyngedig's corporate family rating as A3 and the rating of the junior bonds as Baa2. All rating outlooks are stable. The class A bonds (which are subject to a financial guarantee from Assured Guaranty UK Ltd) are unaffected by these recent rating updates, which are in line with our expectations and do not materially affect our overall credit quality. As at 31 March 2021, around 70% of gross debt was index-linked via bonds and derivatives (2020: 70%), with the remainder at fixed interest rates. The expected maturity of the outstanding fixed-rate and index-linked bonds ranges from 2026 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

GEARING POLICY

Glas Cymru's gearing policy is to target a debt to Regulatory Capital Value (RCV) ratio at or around 60% and interest cover ratios commensurate with maintaining our strong "A" grade credit ratings. This should help us to maintain our low-risk profile giving the Group access to low-cost financing throughout AMP7 and beyond.

DIVIDEND POLICY – APPOINTED BUSINESS (DŴR CYMRU CYF.)

Other than return of value to benefit customers, most recently to support social tariffs and to increase investment in assets to provide our essential services, no dividends are paid outside the Group given our not-for-shareholder constitution. In March 2016 the Glas Board approved a Dividend Policy to permit up to £100 million of funds to be paid intra-Group, outside the regulatory ringfence, in order to enable the funding of commercial projects. A £30.2 million intra-Group dividend was paid in 2016-2017. No further intra-Group dividends have been paid since then and no intra-Group dividends are expected to paid in the foreseeable future. In the event that the Board were considering making a decision whether to pay such an intra-Group dividend, the Board will take into account the extent to which the appointed company is achieving its performance commitments for service delivery to customers and other regulatory obligations. No such dividends were declared or paid during the year ended 31 March 2021 (2020: none).

RETURN OF VALUE

Our corporate structure enables surpluses to be applied for the benefit of customers. The Board seeks to return value to customers while maintaining gearing at around 60% and preserving strong credit ratings and financial resilience for the longer-term benefit of customers. Since 2001, Glas Cymru has applied over £440 million in total which continues to be invested for the benefit of customers. Where funds have been reinvested to enhance customer service, there is a direct link between these investments and improved service delivery. Given the outcome of the PR19 regulatory price review, combined with the exceptional costs incurred during the pandemic and continued uncertainty, the Company is limited this year in its ability to apply surplus for the benefit of customers, but will continue to support the social tariff programme with a contribution of £12 million in 2021-22.

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 2021 have been prepared on the going concern basis. Further information on the Directors' going concern assessment is on page 168.

EVENTS AFTER THE FINANCIAL YEAR END

Aside from the financing activity and the rise in corporation tax announced in the 2021 Budget, both referred to above, no material transactions or events have occurred post year-end which impact the Group's financial statements for the year ended 31 March 2021. We have taken into account the estimated impact of the Covid-19 pandemic on the valuation of the Group's balance sheet as at 31 March 2021 and discuss the impact on our operations and performance on page 55. We have set out in our long-term viability statement on page 74 its estimated impact on our financial forecasts.

Mike Davis
Chief Financial Officer

3 June 2021

OUR APPROACH TO RISK MANAGEMENT

The Glas Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management, and considers risk appetite and progress to target for identified strategic risks in detail every six months, with interim updates provided by the Executive team at every Board meeting. Our "bottom up" risk reporting processes involve all areas of the business to identify risks, including new and emerging areas of concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly. The risks for each business area are considered at regular team meetings.

GLAS BOARD

- main strategic review of risk
- the Board considers updates against the identified strategic risks at each meeting and reviews the strategic risk and risk target/appetites twice a year in detail (May and November)

GLAS COMMITTEES

- Audit Committee (financial and funding risk and risk of failures of the system of internal controls)
- Quality and Environment Committee (operational and water quality/environmental risk)
- Technology Committee (cyber and information security risk and risk of failures of technology strategy and implementation)

EXECUTIVE TEAM REVIEW

TEAM MEETINGS

BUSINESS OBJECTIVES

1

RISK IDENTIFICATION

- Understanding of objectives
- Completeness of risk identification
- Likelihood
- Impact
- Discussion of emerging risks

APPLICABLE RISKS

2

CONTROLS ESTABLISHED

- Prevention/Detection Controls
- Cost Perspective
- Sub Risks
- Review and Monitoring Advice and Guidance from Business Assurance and Compliance teams

INTERNAL CONTROLS

3

OPERATION

- Methodology Statements
- Advice from Compliance team
- Annual opinion from Head of Business Assurance
- Third party assurance from a range of providers
- Review of lagging/leading key performance indicators

CONCLUSION ON EFFECTIVENESS OF RISK MANAGEMENT AND FRAMEWORK OF INTERNAL CONTROL

PROCESS FOR MANAGING RISK

FIRST LINE – OWNS AND MANAGES RISK

- Individual teams within the business take responsibility for managing risks within their areas of responsibility.
- Each business unit feeds into a "bottom up" risk management system by keeping a risk register. All teams are required to record risks and regularly update their risk register held locally.
- Risks are reviewed and scored for likelihood and severity of potential impact at team meetings and are escalated via team managers where appropriate. All risks are scored using an agreed company-wide risk score matrix. The route of escalation is primarily through the line management structure and associated committees. This is complemented by a cross-business focus on key risks (e.g. information security, health and safety) in dedicated committees within the second line of defence.

SECOND LINE – RISK MANAGEMENT AND CONTROL

- Risks are discussed during a "top down" discussion of risk every month at a meeting of the Executive team. The Executive team reflects key changes in risks within a Strategic Risk register and ensures each risk has an owner.
- The Compliance team monitors that all risk registers are updated at least quarterly and provide a consolidated detailed quarterly report for the Executive team to consider. The report allows the Executive team to be aware of the risks facing the business when they undertake business planning and longer-term strategy. The Executive team considers whether any risks warrant further action or direct oversight; and whether they should be referenced within the Strategic Risk report (i.e. joining up the bottom up processes with top down process).
- Twice a year, the Executive team will hold a broader strategic discussion of risks, with focus on the route towards mitigating these risks (referred to as 'Path to Green'). These discussions inform the six-monthly Board Risk reports.
- Risks are considered, where appropriate, within the terms of reference of various operational groups and committees, for example the Health and Safety Steering Group, Information Security Steering Group, and within the Capital Alliance Framework. This is supported by other compliance-focused teams within the business, including the Quality Policy and Compliance team, responsible for water quality and wastewater sampling, and the Integrated Management Systems certification team.

THIRD LINE – INDEPENDENT REVIEW AND OVERSIGHT

- The Audit Committee of the Board oversees the risk management processes and procedures and reports this back to the Board. It is focused on identifying and resolving control issues.
- The External Auditors review our regulatory reporting information to Ofwat in the Annual Performance Report.
- Our Business Assurance function conducts audits of the systems of internal control, which consider the adequacy and effectiveness of risk management, compliance and control activities. The Audit Committee monitors the issues identified and resolved.
- Our External Auditors and our External Assurance partner review our approach to risk and request evidence of risk review in the business.
- The Executive team's overview of strategic risks affecting the business is reviewed at every Board Meeting. The Board carries out an in-depth review of strategic risks and an assessment of current and target risk appetite twice a year.
- This bottom up and top down approach to risk management provides assurance that risks are being effectively managed by the business and identifies those areas where further mitigation steps are needed.

KEY RISKS FACED BY THE GROUP

The analysis below focuses on those risks that would threaten the Company's future performance, solvency or liquidity. The risks are not ranked in order of significance or severity. We will be able to report the trend against this year in next year's annual report.

KEY RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	TREND RELATIVE TO LAST YEAR
Health, Safety and Wellbeing (serious injury)	The health and safety of our employees and the public in the provision of our services and on our sites is our utmost priority. Risks include the potential for serious injury, ill health or fatality to an employee, contractor, visitor or member of the public arising out of or in connection with our work activities.	The Board provides oversight of our Health and Safety Strategy, with reporting on H&S issues at every Board meeting and Quality and Environment Committee meeting. The Health and Safety Steering Group includes Trade Union liaison and formulates an annual H&S plan – including a review of identified "Top 10" risks for further mitigation. We ensure that our health and safety policies are clear and regularly reviewed, with a clear line of responsibility with the Chief Executive Officer as the responsible Board Director to whom the Director of Health and Safety reports directly. The HSE/Institute of Directors "Leading H&S" guidance is used as the directing framework. There is a visible leadership focus provided by the Executive team through "Safety Days" and promotion of "safety conversations" at all levels of the business. We follow industry best practice and are accredited to ISO45001. There are regular communications across the business on H&S issues – for example at every team meeting, at employee roadshows and at the annual health and safety conference.	Numbers of reportable injuries and performance against some other key measures for 2021 are improved on 2020: Six RIDDORs (Serious Safety Incidents) (2019-20: Eight) 15 Lost Time Injuries (LTIs)(2019-20: 28) Ongoing retention of RoSPA Gold Awards for Health and Safety and Welsh Government Platinum Corporate Health Standard. In December 2020, an accident at one of Wessex Water's digester plants in Avonmouth, Bristol, caused the death of four individuals. This was a tragic reminder of the inherent dangers of the work we carry out. We have undertaken reviews of relevant procedures with internal teams and with the support of specialist consultants.	◀ ▶

KEY RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	TREND RELATIVE TO LAST YEAR
Loss of Trust from our Customers or Key Stakeholder groups	Failure to earn the trust and confidence of our customers leading to a loss in confidence of our customers in the services that we provide and ultimately in the trust in our organisation. Failure to maintain relationships of trust with our key stakeholders, including regulators, environmental NGOs and governments.	We strive for continuous improvement in our services to "earn the trust of our customers every day" and this focus on doing the right thing for our customers underpins our whole approach to service and everything we do. We also regularly measure customer trust – in 2020-21 the percentage of customers surveyed who said that they trusted us decreased from 87% to 83%. We continue to focus on strengthening customer involvement and engagement in our activities and maintain good stakeholder relations. We regularly meet representatives of key stakeholder groups.	Following a dip in customer sentiment attributed to phases of pandemic lockdown, trust scores have stabilised in recent months. We have maintained transparent and open relationships with key stakeholders during the year.	◀▶
Performance and Cost Targets	Performance below agreed AMP7 efficiency targets may restrict delivery of customer outcomes and drive a circle of erosion of customer trust.	Operational strategies and improvement plans are approved by the Board to meet AMP7 performance commitments. Cost performance reporting and discussion is undertaken monthly with the Executive and the financial plan for 2021-22 was approved by the Board in March 2021. The Executive team also have a Change Committee meeting once a month to track change projects throughout the Company to improve performance and meet cost efficiency targets.	During 2020-21 we have continued our investment in Smart technology and the application of Data Science to our business challenges. Increased use of technology for many operational and retail activities, such as Track My Job and My Account, has helped us to meet some of our efficiency challenges. We have incurred around £34 million of exceptional costs in responding to the pandemic situation. The impact of the restrictions over the way we work has also delayed some of our cost efficiency plans, such as implementing modernised employment Terms & Conditions.	▲

KEY RISKS FACED BY THE GROUP

KEY RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	TREND RELATIVE TO LAST YEAR
Information Security, Cyber and IT System Loss	A major loss or disruption to an IT system, or significant breach of sensitive information, such as from a cyber-attack, could lead to significant disruption to operational and customer services, significant reputational loss and potential regulatory censure and fines.	The Board Technology Committee maintains oversight of digital risk and opportunity in the business and ensures increased awareness at Board level. We were joined by a new Chief Technology Officer in May 2020 and have increased our focus on cyber-security issues over the year. The Information Security Steering Group, which comprises individuals drawn from across the business, as well as information technology, operational technology, and information security specialists, continues to monitor developments in and raise awareness of these issues in the business.	We are actively managing the external cyber security threats that remain a significant element of this risk. We have increased our systems monitoring during the year, and have reviewed our cyber security policies following various high profile cyber attacks globally, and an increased prevalence of cyber-fraud activity.	▲
Resilience and Business Continuity (both generally and in response to planning for Covid-19 and EU Exit situations)	Failure of strategic assets, or wider reduction in system capacity leading to loss of supply, e.g. from environmental causes or loss of people, system or supply chain resources.	We have a comprehensive Emergency Response Manual and follow an Incident Command structure. There are corporate Business Continuity Plans in place which assist in scenario planning for circumstances including Pandemic, Fuel, Power outages, Drought, Flood and Winter Weather issues. We are involved in the national industry-level co-ordination of planning through the Water UK Platinum Incident Management (PIM) team. We also have the ability to call upon Mutual Aid (support from other water companies). In February 2021 we received tankering assistance from South West Water following a burst main in Caerphilly. Annual exercising of plans in line with the Security and Emergency Measures (Water Undertakers) Direction 2017.	The Crisis Management Team (which includes the full Executive team) has met daily for Executive Strategic Oversight and Gold Command to co-ordinate the Group's tactical response to Covid-19 and latterly EU Exit and Winter Events. This team is supported by the Emergency Planning team.	◀ ▶

KEY RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	TREND RELATIVE TO LAST YEAR
Impact of Severe Recession (Covid-19 and Brexit)	Risk of severe recession and/or long-term stagnation that has pervasive impacts on funding model.	We continue to have good liquidity and a strong industry leading credit rating. Working with our customers who struggle to pay their water bills and increasing the number who benefit from social tariffs or other financial assistance. We continue to conduct six-monthly financial sensitivity analysis modelling against key investor ratios. Following Board approval on 4 March 2021, on 9 April we issued £300 million of subordinated (junior) bonds at a fixed rate of 2.375%, meaning that the Group is fully funded to the end of the current regulatory period in 2025.	The extent of the likely recession once we emerge from the current situation is unclear, but we are conscious that the risk of an increased bad debt charge as a result of customers' inability to pay their water bills is far higher than in recent years. While the Group's financial position is strong we are not at all complacent about the challenges ahead for the remainder of 2021-22 and beyond.	▲
Climate Change	Risk of accelerated climate change leading to a greater number of significant weather events with potential to overwhelm the infrastructure in a part of our operating area and cause significant damage to multiple assets, materially affecting the provision of services and impacting our customers.	Increased operation of our Combined Storm Overflows (CSOs) during prolonged and heavy periods of rainfall is being addressed with investment of £765 million on improving our wastewater assets during 2020-25, and we are working closely with regulators and other stakeholders to address public concern about the more frequent operation of these assets. Robust and regularly tested business continuity plans, and regular review of emergency planning equipment. Operational monitoring of weather alerts with clear escalation plans as weather warnings come in. AMP7 flood risk (including coastal flooding risk) assessments being carried out. Dam safety programme including new maximum flood scenarios and AMP7 resilience plan being delivered.	The risk continues to increase. The storm events during 2020-21 have led to several rivers including the River Wye hitting new record highs and the rate of records being broken is increasing. In February 2021, the Glas Board resolved to adopt a target of 90% reduction in carbon emissions by 2030 against the baseline 2010-11 emissions, and to aim to achieve 100% carbon neutrality by 2040. Please see the Environment section on page 80 for further details of the innovative work we are undertaking to tackle the impact of climate change on our assets and to reduce our carbon emissions.	▲

KEY RISKS FACED BY THE GROUP

KEY RISK AND SEVERITY	POTENTIAL IMPACT	MITIGATION	CHANGES OVER THE PERIOD	TREND RELATIVE TO LAST YEAR
Changes in Environmental Regulation	Changes in Environmental policy and regulation under UK Government and (where powers are devolved) Welsh Government following EU Exit may create new obligations for the Company and a period of uncertainty.	We are engaging proactively both with DEFRA and with Welsh Government to understand the implications of policy changes for our business, and through continuing engagement with the European trade association, EUREAU, we are closely following changes to the Water Framework Directive and its implementation in Europe.	EU Exit has meant that Environmental legislation will now be decided at a UK and Wales-based level, and provides an opportunity for governments to assess the effectiveness of current policies and legislation, as well as the business risk inherent in any significant regulatory change.	▲

EMERGING RISKS FACED BY THE GROUP

Our reporting framework for risk monitoring throughout AMP7 includes regular reviews of emerging risks, including "black swan" events that might adversely affect our ability to continue to provide essential services to our customers. The current status of these identified risks is set out below:

RISK	DETAIL	MITIGATION	TREND
Occupational health issues	The use of chemicals in treatment processes, and the presence of man-made chemicals - for instance pharmaceuticals, as well as pathogens and gases produced during the wastewater treatment process could pose long-term H&S risks to employees.	We have developed operational safe working practices which meet COSHH assessments, we monitor to assess risk and follow best practice guidance in relation to workforce exposure to chemicals. We have offered an Occupational Health Surveillance programme, which has provided reassurance to those colleagues whose concern about working on wastewater sites increased during the pandemic.	◀ ▶
Public health - micropollutants	The risk of public concern around micropollutants - chemicals and microplastics - in drinking water.	We are following developments in environmental regulation, including the planned implementation of the Drinking Water Directive in England and Wales, and supporting research by UKWIR and others into the potential risks. Our focus on catchment management will eventually help to reduce reliance on chemicals in the treatment of drinking water.	▲
Public concern about environmental issues	The risk of failing to recognise and respond to the concerns expressed by stakeholders regarding environmental issues and climate change, leading to loss of trust and inadequate planning for the future.	We have ensured transparency by publishing data on CSO discharges and we work with the Independent Environmental Advisory Panel members, including environment NGO representatives, together with regulators, governments and organisations such as Surfers against Sewage. We are continuing with our £765 million investment programme in wastewater assets in AMP7.	▲
Approach to agile working	This is both a risk and a potential opportunity - with the change in working practices, individuals may not be tied to a particular geographical location when considering moving roles.	We are monitoring the impact of the pandemic on working practices and providing support for mental health wellbeing. There are a few areas of the business where we are finding it more difficult to retain new recruits.	▲

SIGNIFICANT DISPUTES WITH THE POTENTIAL TO IMPACT THE COMPANY

INFRACTION PROCEEDINGS IN RELATION TO THE LOUGHOR ESTUARY:

In March 2014, the UK Government was informed of an infraction case alleging breaches of the Urban Wastewater Treatment Directive around the UK, including at the Gowerton and Llanelli catchments in the Loughor Estuary. There has been a programme of investment in the area, including sustainable urban drainage systems, which was welcomed by the European Commission and which was planned to be completed by the end of 2020. During the past financial year, we continued to provide updates to Welsh Government on the progress of the investment, which they have incorporated into their briefings for DEFRA and the Commission. The most recent update was able to report that construction work has been completed, although commissioning at two sites has had to be extended as a result of the restrictions relating to the current Covid-19 pandemic, but is still expected to have been completed by the end of September 2021.

CLAIMS UNDER THE ENVIRONMENTAL INFORMATION REGULATIONS 2004 (EIR):

The Company is defending five separate claims brought by groups comprising individuals and entities operating personal search businesses. The claims are for the repayment of charges received for drainage and water searches, on the basis that these charges were allegedly levied contrary to the EIR, and injunctive relief. The collective claimed quantum of the first four claims (before claims for interest) is £4.3 million. The fifth claim has recently been served and its quantum is not yet known but it is not anticipated that it will substantively increase the total collective sums claimed. The Court has ordered that the claims be progressed concurrently, with issues to be determined in stages. The claims remain at a relatively early stage with further case management directions to be issued during the course of 2021, with the first issues unlikely to be determined before April 2022. At this stage, settlement is not deemed probable and so no provision has been recognised.

LONG-TERM VIABILITY STATEMENT

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

Ours is a long-term business: as a water and sewerage provider our commitment to customers is to provide continuous high-quality and reliable services at the lowest possible cost, and our ongoing financial resilience is key to our ability to deliver on this commitment.

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

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

Our corporate model means that we have no shareholders and our focus on financial resilience cannot, therefore, be compromised by shareholder demands for higher returns. It also means that we have no line of last resort in the way that a traditionally-owned company could approach its shareholders for assistance in the case of financial distress. We are, therefore, wholly debt-financed and raising debt at a low cost is a critical element of our financial strategy: it is essential that we retain access to financial markets. Our strategy since Glas Cymru acquired the business of Welsh Water in 2001 has been to reduce our gearing to the level at which the Board considers we would be able to obtain access to the most efficient level of debt funding. Over the past two decades we have steadily reduced gearing from 93% to 60%, in line with the Board's target of around 60%; as a result we have a high level of financial reserves (£2.4 billion) and robust credit quality.

OUR APPROACH

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

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

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

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

We recognise that risk is a necessary part of business. Our appetite is to maintain it at a low level and our processes are designed accordingly: we monitor inherent and existing risks and strive to capture emerging risks at the earliest opportunity. Our assessment of risks is incorporated into our annual detailed budgeting and forecasting process for the current regulatory period, and at a broader level on a five-to-ten year horizon. The Board focuses on the achievement of long-term objectives and carries out an annual review of the strength and effectiveness of our risk management framework based on a review of the processes, outputs and feedback from all areas of the business. The Board also challenges the underlying assumptions and the estimated impact of mitigating activities. As part of its approval of the annual business plan, the Board discusses the likelihood of the principal risks

arising and the impact on our forecasts, which in the case of our latest financial plan (the 2021 plan) principally cover the period to the end of AMP7 in March 2025 – although our financial forecasts stretch to 2030. Our 2021 plan is based on our final business plan submission to Ofwat in August 2019, modified in response to Ofwat's Final Determination and other known factors.

COVID-19 PANDEMIC

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

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

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

LONG-TERM VIABILITY STATEMENT

STRESS SCENARIOS

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

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

LIKELIHOOD

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

SEVERITY

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

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

	AMP7				AMP8			
Risk category	March 2025 reserves (RCV less net debt)	March 2025 gearing (net debt/ RCV)	Average funds from operations /net debt	Average adjusted interest cover ratio	March 2030 reserves (RCV less net debt)	March 2030 gearing (net debt/ RCV)	Average funds from operations /net debt	Average adjusted interest cover ratio
Core scenario: 2021 financial plan	2,855	56.9%	6.5%	1.5x	3,380	53.8%	7.5%	2.3x
Principal risk scenarios								
Health and Safety (Serious injury)	2,852	57.0%	6.5%	1.5x	3,377	53.9%	7.5%	2.3x
Customer Trust	2,843	57.1%	6.5%	1.5x	3,352	54.2%	7.3%	2.2x
People (Key Skills Shortage)	2,841	57.1%	6.5%	1.5x	3,346	54.3%	7.3%	2.2x
Water Quality	2,836	57.2%	6.4%	1.5x	3,340	54.4%	7.3%	2.2x
Performance and Cost Targets	2,767	58.3%	6.0%	1.3x	3,130	57.2%	6.3%	1.9x
Information Security, Cyber and IT System Loss	2,774	58.2%	6.4%	1.5x	3,298	54.9%	7.3%	2.3x
Operational Technology	2,774	58.2%	6.4%	1.5x	3,298	54.9%	7.3%	2.3x
Environmental Regulation	2,814	57.5%	6.5%	1.5x	3,299	54.9%	7.3%	2.3x
Resilience and Business Continuity (Covid-19 and Brexit)	2,801	57.7%	6.2%	1.4x	3,305	54.8%	7.2%	2.2x
Relationships and Trust (Political/ Regulatory)	2,855	56.9%	6.5%	1.5x	3,380	53.8%	7.5%	2.3x
PR24	2,855	56.9%	6.5%	1.5x	3,229	55.9%	6.5%	1.9x
Finance (funding)	2,855	56.9%	6.5%	1.5x	3,380	53.8%	7.5%	2.3x
Impact of Severe Recession (Covid-19 and Brexit)	2,801	57.7%	6.2%	1.4x	3,305	54.8%	7.2%	2.2x
Climate Change Impact	2,824	57.4%	6.3%	1.5x	3,305	54.8%	7.1%	2.2x
Combination scenarios	2,551	61.5%	5.3%	1.1x	2,785	61.9%	5.5%	1.6x
All risks with a likelihood of 3+	2,643	60.1%	5.6%	1.2x	2,983	59.2%	6.0%	1.8x
All risks with a likelihood of 4+	2,590	60.9%	5.5%	1.2x	2,893	60.5%	5.8%	1.8x
All risks based on likelihood x severity								
"Severely adverse but plausible" - low inflation and cost shocks	2,359	61.5%	6.6%	1.1x	2,063	67.3%	5.6%	0.9x

LONG-TERM VIABILITY STATEMENT

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

The combination of low gearing and a high level of liquidity means that the Group is well placed to absorb even large cost shocks while retaining access to funding markets. We are sheltered from the full impact of inflation movements as all our allowed revenues and around two-thirds of our debt is index-linked (broadly speaking, we benefit financially from a high inflation environment and come under pressure when inflation is low).

Importantly, even in our most stretching scenario, which assumes that all of the principal risks crystallise during a nine-year period of low inflation, our forecasts indicate that we would not hit our 85% gearing level or interest cover triggers with our existing lenders; this is not a realistic scenario for planning purposes but it helps us to understand the level of future resilience inherent in our current financial position.

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

OUTLOOK

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

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

The Board also has regard to the Group's strong financial position when assessing viability, noting that liquidity is strong and that gearing at 31 March 2021 is in line with the target of 60%. The strength of our current liquidity position is very high with cash on deposit and undrawn loan facilities totalling £421 million, expanded by a further £300 million on 9 April following the drawdown of a new junior debt issue. As at

31 March 2021 some £221 million of cash was held on short-term deposits (35 days maximum) affording easy access to a high level of liquidity .

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

COMMERCIAL BUSINESS

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

ASSURANCE

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

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

CONCLUSION

The Board considers that the risk management and forecasting controls in place are robust and that the 2021 plan and stress testing outputs provide an appropriate level of information from which to draw a conclusion on the Group's long-term viability. Having reviewed these outputs as summarised above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030.

OUR RESPONSIBILITIES TO THE ENVIRONMENT

OUR STRONG COMMITMENT TO CREATING WIDER PUBLIC VALUE IS ILLUSTRATED BY:	
The scope of our work to minimise our impact on the environment and to enhance the biodiversity of our landholdings;	> **Environment - see also our Task Force on Climate-Related Financial Disclosures (TFCD) reporting on page 90**
The work we do with communities and the key policies we have in place to enhance the wellbeing of our people and our suppliers' workforces; and	> **Social - Communities, People and our Visitor Centres - see pages 84 to 89**
Our focus on good governance to underpin all decision-making, including compliance with the Ofwat principles of Board Leadership, Transparency and Governance, and the UK Corporate Governance Code.	> **Governance Report see pages 95 to 151 see also pages 90 to 93 in this section.**

ENVIRONMENT

How we are working to reduce our environmental impact and provide sustainable services.

NET CARBON ZERO COMMITMENT

As a water and wastewater utility company, we use significant amounts of energy to pump water and in our treatment processes, and we recognise the role we have to play in reducing our carbon emissions. In our 2020 Annual Report we were proud to report that between 2010 and 2020 we had reduced our operational carbon emissions by 79%. Nevertheless, our energy consumption increased during 2020-21 by 5% (compared to a normal year) as a result of:

- per capita consumption per customer increasing due to changing customer behaviour and public health advice on handwashing; and
- increased pumping of stormwater during extreme weather events e.g. Storms Ellen and Jorge.

As part of our response to climate change, and in order to reduce climate emissions, we have invested in renewable energy generation technologies:

- solar energy and onshore wind turbines situated on our estates
- hydro turbines at our reservoirs

- bio-methane injection into the gas grid at our wastewater treatment works
- Combined Heat and Power generation fuelled by bio-methane derived from sewage sludge
- electricity generated by our food-waste-to-energy site in Cardiff (Welsh Water Organic Energy).

In 2020-21 we self-generated around 23% of our energy needs, and the rest was procured from our energy supplier Ørsted, which since 2017 has supplied the Group with 100% renewable energy that is REGO (Renewable Energy Guarantee of Origin) backed. In February 2021, the Glas Board resolved to adopt a target of 90% reduction in total carbon emissions (operational and embedded) by 2030 against the baseline 2010-11 emissions, and to aim to achieve 100% carbon neutrality by 2040.

In order to achieve this, the Group plans to:

- Continue to minimise electricity consumption, whilst improving customer service and compliance by encouraging our customers to use less water, investing in energy efficient equipment, and working with stakeholders to reduce rainfall entering into the sewerage system
- Continue to invest in renewable energy generation
- Prioritise the use of sewage derived biogas, and trial the production of hydrogen, to decarbonise heat and transport used by the Group
- Gradually replace the existing fleet with vehicles that utilise low carbon fuels (e.g. hydrogen, biomethane) and/or electricity
- Actively control and reduce the fugitive emissions from wastewater treatment processes by fully automating the control of all aeration plants above 10,000 Population Equivalent and enhancing the maintenance of these facilities to sustain and continuously improve performance
- Monitor and reduce the carbon emissions associated with the construction of new assets (embedded carbon)
- Maximise the carbon sequestration potential of Welsh Water land holdings through additional raised bog and wetland restoration and woodland management practices, to offset carbon emissions that are difficult and/or cost prohibitive to abate.

For further information on our Carbon Emissions reporting in line with Task Force on Climate Change related Financial Disclosures (TCFD) requirements, please see page 90.

INNOVATION

Innovation is central to our work to reduce our environmental impact and develop more sustainable outcomes, helping to reduce our carbon footprint and our impact on rivers or the sea, and to realise the positive contributions we can make, such as in relation to the biodiversity of our land holdings, and those of our partners. Over the past year we have been focusing our efforts on supporting the development of innovative nature-based solutions, as these can reduce our carbon footprint, resolve specific water quality issues, and enhance biodiversity all at the same time.

We expect to support the Wye and Usk Foundation in the construction of two wetlands on the River Lugg with the aim of offsetting the impact of development on the river and improving local biodiversity. Similarly, we are supporting Herefordshire Council on preliminary work on eight additional sites in the same water body. Regulators, local developers and landowners are also partners in these projects and we report progress to the Herefordshire led Wye Nutrient Management Board.

This is an example of a major change away from the sorts of carbon-hungry investments of the past which did not improve biodiversity and increased our carbon footprint, and marks a move to a way of working aligned with methodology set out in the Well-being of Future Generations Act, where partnerships and the sharing of resources are recognised as central to providing solutions to the environmental challenges we face. We are also focused on our 'first line of defence' catchment scale improvements to the environments around our water sources, and we are optimistic that these approaches will be supported by the new land management approaches driven by the regulatory changes Welsh Government is currently making in a post-Common Agricultural Policy, post-Brexit world.

We plan to double the innovation investment for 2020-25 (£39 million in 2015-20) which will include developing a number of 'disruptive' technologies and working jointly with government and other stakeholders, to co-design and co-deliver truly sustainable solutions.

Our AMP7 proposals for innovation include our catchments work, our Sustainable Management of Natural Resources (SMNR) investments, and monitoring our environment to help shape Welsh Government policy and our investment portfolio for PR24.

As well as investing in driving innovative change, we continue to work closely with our Independent Environmental Advisory Panel (made up of regulators, academics and environmental stakeholders) who advise the business on the science and research we undertake. The Panel continues to support the Group through the expertise and resources available in such bodies and to build our relationships with them, in order to leverage funding and expertise into our science and research work. More generally, we continue to drive elements of the national research agenda through our strategic relationship with the National Environmental Research Council (NERC) and UK Research Institute (UKRI), and by participation in water industry research initiatives, most notably through membership of the UK Water Industry Research partnership (UKWIR) which manages and coordinates the common research interests of UK water companies.

Our 2020 Innovation Conference welcomed over 1000 guests, albeit virtually, from all over the globe, where we were able to showcase our innovation needs.

OUR RESPONSIBILITIES TO THE ENVIRONMENT

SUSTAINABLE MANAGEMENT OF NATURAL RESOURCES (SMNR)

In 2020 we commenced pilot projects in four catchment areas across Wales, focusing on the nine principles of SMNR set out by NRW in 2019 as an alternative to conventional high carbon/end of pipe chemical treatment solutions at individual WwTWs.

Potential Clwyd catchment SMNR solutions have been developed at Henllan and Tremeirchion, both of which aim to reduce the amount of phosphorus in the watercourse. The conventional regulatory approach would have involved delivering a grey solution (concrete/steel tanks and chemical dosing) with high ongoing opex costs, as well as increasing our carbon footprint. Using the SMNR approach, we are developing a combination of an integrated constructed wetland complemented with catchment interventions. This approach should allow us to deliver environmental improvements whilst also providing other wellbeing outcomes for local communities, such as tree planting and construction of a new footpath that will link the local village of Tremeirchion to a footbridge across the River Clwyd.

A key part of the Tremeirchion project will be local engagement and public participation. We plan to engage with the local primary school to support educational environmental lessons, we want to include pollinator-friendly planting to increase biodiversity, and we hope to investigate the potential for local adoption of bee hives.

Catchment solutions with multiple participants collaborating are key to solving water quality issues more widely across Wales in the long term, especially to meet the new challenges of the Joint Nature Conservation Committee targets for Phosphorus in Special Areas of Conservation (SAC) rivers.

NUTRIENT MANAGEMENT BOARDS

An overarching management group is being set up by Welsh Government to bring stakeholders together for SAC rivers. We will support these by providing our water quality modelling and other expertise to enable all parties to plan effectively for changes to be made to bring these rivers back into compliance with required standards. For our part we will be investing almost £200 million in this investment period to reduce further the levels of nutrients discharged from our waste water treatment assets.

COMBINED STORM OVERFLOWS (CSOS)

CSOs are designed to protect properties by diverting storm water (rain water mixed with effluent) away from them, discharging instead into watercourses and relying on dispersal to minimise impact on the environment.

On privatisation, we inherited a number of CSOs that were subsequently found to be unpermitted, and some that were permitted but were not in use. Over the years, we have worked with our environmental regulators to submit unused permits for revocation and to apply for permits for all unpermitted CSOs.

In more recent years we began to install Event and Duration Monitors (EDM) to provide data on the operation of CSOs in AMP5 with an initial focus on bathing and shellfish waters before moving onto other sites in AMP6. This allowed us to carry out a major data cleansing exercise.

Since 2015 we have submitted 144 permit applications for unpermitted CSOs. 94 CSOs have been issued with permits, three applications have been withdrawn, and others remain with NRW and still to be issued. During the same period, over 300 CSO permits have been submitted for revocation as no longer required. It is our intention to work with our regulators to ensure that all CSOs are permitted and to publish data on the frequency and duration of their operation.

SINGLE-USE PLASTIC

We support the Welsh Government's aim to move to a circular economy to ensure that we do not use more than our fair share of the world's resources. As part of the Welsh Government's move to phase out the use of unnecessary, highly littered, single use plastic, we asked the Government to include wet wipes in a proposed single-use plastics ban.

We commissioned research that showed that more than four-fifths of the public would support a ban on wet wipes containing plastic, which are the main cause of catastrophic sewer blockages which can flood homes. We tackle around 20,000 blockages a year, costing around £5 million to clear, which could otherwise go to improve services or reduce customer bills.

During the Government consultation in Autumn 2020, we ran our own Let's Stop the Block campaign to help raise awareness of the problems associated with blockages caused by wet wipes and to encourage customers to take part in the consultation. In addition to a TV advertisement encouraging customers not to dispose of inappropriate items in the toilet, we commissioned a film which was shared on our social media platforms, reaching over 50,000 people. It was also shared with over 100 stakeholders, some select social media 'influencers' and with 3,500 employees - resulting in over 40,000 people interacting with our 'Let's Stop the Block' web page. The responses to this consultation are currently being reviewed and we await the details of the outcome in late 2021.

DRAINAGE AND WASTEWATER MANAGEMENT PLAN (DWMP)

We are progressing well with the development of a new DWMP, which will be published for consultation in June 2022 and will set out our proposals for future wastewater network and treatment investment over the next 25 years. The plan will bring together multi-AMP plans for improving resilience, protecting our customers and enhancing the environment so that we can agree with customers, investors and regulators the priorities and pace at which improvements will take place. The development of these plans will also be used to highlight the impact of climate change on wastewater networks and will explain our reasoning for planning to build resilience into our asset base.

BIODIVERSITY REPORTING

In 2020 we refreshed our 2018 plan – Making Time for Nature – highlighting both the good progress we are making in complying with our duty to enhance biodiversity and ecosystem resilience across our supply area, and also setting out our proposals to enhance and maintain biodiversity further over the next few years. Visit **dwrcymru.com/environment**.

Our focus on biodiversity in 2020 was impacted by Covid-19 which forced many of our partners to furlough their staff and so we have not been able to progress any third party projects. However we have continued to progress our own projects, including the River Lugg wetlands creation project described above and the restoration project at Lower Neuadd reservoir.

LOWER NEUADD RESERVOIR, MERTHYR TYDFIL

- We invested £5 million to restore Lower Neuadd, Powys, to its original state from Victorian times. The project modified the existing dam to allow the water to flow naturally through the valley. It got underway in June 2019 and was completed in November 2020. A public footpath and new bridge were installed to allow visitors to enjoy the area – with the existing footpath diverted while work was carried out. Other benefits included:
- Reusing more than 61,000 tonnes of material from the dam.
- Using recyclable material to backfill the reservoir and create an area for new landscaping and habitat creation.
- Using recycled timber to create 21 nesting boxes for birds, bats and owls to support biodiversity.
- Along with significantly reducing the amount of topsoil for landscaping and vehicle movements to and from the site (from not hauling dam material off site to a recycling centre but using within the reservoir basin), a total of 75% carbon savings were made which supports our commitment to be carbon net zero by 2040.

OUR SOCIAL RESPONSIBILITIES

COMMUNITIES

We want to play a positive role to improve the communities we serve and the world around us. We are committed to playing our part in ensuring we provide a benefit to future customers as well as current ones. In 2020, the impact of the Covid-19 pandemic led us to reconfigure our Community Fund to provide more funding to key organisations who were helping support our most vulnerable customers and communities. We contributed £40,000 to Business in the Community Wales, £30,000 to Community Foundation Wales, Hereford and Cheshire and £106,000 to the Trussell Trust to support each of 106 local food banks. We also wanted to involve colleagues and offered them the opportunity to apply for up to £200 to help support their local organisations and charities in the fight against the pandemic.

SUPPORT THE BOARDWALK, HAVERFORDWEST

This volunteer-led group raises funds and co-ordinates activities to maintain and improve the Broad Haven boardwalk in West Wales. They benefited from a £870 grant from the Community Fund to help improve the experience of visitors by creating a nature trail particularly targeted at young visitors, with supporting history, flora and fauna information. They used the funding to highlight appropriate routes for visitors with accessibility needs and replace the previously worn, ad hoc signage with now bright, contemporary and consistent signage, aesthetically sympathetic to the habitat.

COMMUNITY FUND

Since launching our Community Fund in 2017, nearly 350 organisations have benefited from grants (between £250 and £1,000) to help make a difference in their local communities. The Fund has played a key role in helping to make improvements to the local environment or support community initiatives promoting health, wellbeing and environmental objectives.

> **I'm writing to say a huge thank you to all at Dwr Cymru for your recent donation of £200 to help Llamau during the Coronavirus pandemic. We are truly so grateful for this generous donation. Your donation will help us provide support services for young people and women who are at risk of homelessness or domestic abuse, including our Youth Homeless Helpline. Thank you so much!**
>
> LLAMAU

WATER RESILIENT COMMUNITIES

Our innovative Water Resilient Communities projects aim to build a lasting legacy in the areas where we are carrying out major work. Following the completion of our successful pilot project in Rhondda Fach, we launched two further projects in Rhyl (north Wales) and Rhymney-Bargoed (south east Wales) in 2020.

The projects challenge the business to work with and involve customers in a way not done before - to co-create and co-deliver more resilient services within the area. From helping people struggling with their bills, providing water-saving devices, heading to schools with fun lessons and supporting local community projects, we target sections of the community to deliver real and tangible value.

Due to the impact of the pandemic we had to adapt ways of working to continue to offer maximum community benefits within the project areas of Rhyl and Rhymney-Bargoed. Activities have included:

- The Vulnerable Customer team delivered training, awareness raising sessions, referrals and introductory meetings to a total of 34 different organisations in Rhyl and Rhymney/Bargoed. One of the most successful partnerships was with Rhyl Job Centre Plus, which referred over 90 clients for tariff support.
- Households in the project areas received a virtual water efficiency audit or product - a total of 369 free water efficiency devices have been provided. The impact of a 'gamification' trial project to influence water consumption

behaviour in the Rhyl area is currently being measured.

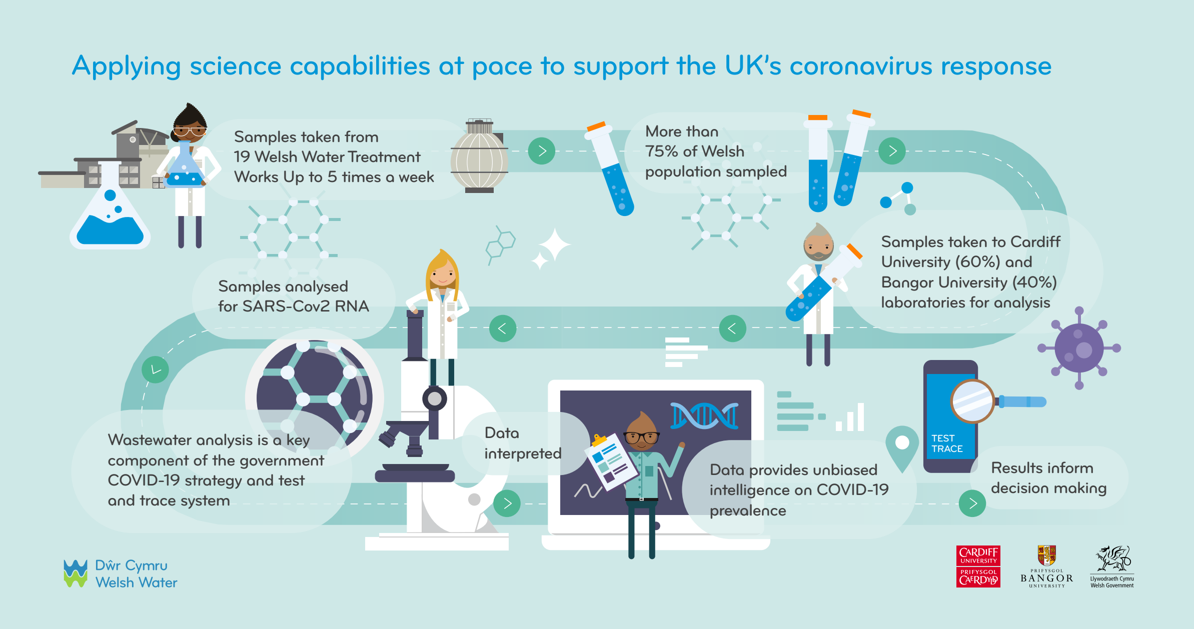
- Waste Network colleagues conducted proactive sewer investigations along 1,000 metres of network in Rhymney-Bargoed, with some blockages and defects detected and addressed before they become an issue for customers. Investigations focused on misconnections in Rhyl comprising 47 postcode areas within the catchment area.
- Human Resource colleagues collaborated with the Prince's Trust and our Partners (Lewis and Morrison Utility Services) to support the Welsh Government Foundational Economy Challenge 'Get Into Construction' programme. 27 young people benefited from a total six hours of construction and employability insight and knowledge. Work experience opportunities are planned when safe face-to-face interaction can resume, and career and employability sessions are being confirmed in Rhyl for the coming months.
- The Education Team has delivered educational sessions to 3,119 pupils within both project areas since January 2020, accounting for over 35 hours of direct delivery. This was complemented by the development of an education pack for 3 to 6-year-olds, and a co-production project with the Parent Network in Caerphilly, Area Community Regeneration Team and a local primary school to produce a children's book, developed by children.

COVID-19 SEWAGE SAMPLING

Working with our partners in Bangor and Cardiff University, Welsh Government and Public Health Wales we successfully established the first UK national-scale wastewater-based epidemiology network for the monitoring of SARS-CoV-2 in the general population of Wales. This partnership has monitored the changing state of the pandemic in Wales, supported and informed public health policy decisions and built national capacity for future pandemic preparedness. It has highlighted the important role the wastewater industry plays in national public health.

As the world began to realise the scale of the emerging pandemic in February and March 2020, a team of researchers at Bangor University recognised the important need to act. They came together to test the feasibility of tracking the course of the pandemic at different temporal and spatial scales by monitoring the presence of SARS-CoV-2 in wastewater. This team rapidly expanded to include Cardiff University.

Wastewater-based epidemiology (WBE) represents a rapidly emerging field of science. The use of WBE for tracking the emergence and spread of SARS-CoV-2 was pioneered in Wales and led to the establishment of a nationwide monitoring programme. Over the last 12 months, we have shown the success of the approach for the surveillance of Covid-19 and its potential role in public health related decision making. We are now working with our partners to design and implement a Sentinel programme of longer term monitoring looking at a broad range of viruses, hopefully including variants of Covid-19 as well as other viral threats to public health. We hope funding will be approved from Welsh Government shortly, and then we should see implementation in mid-2021.



OUR SOCIAL RESPONSIBILITIES

EDUCATION

Our extensive education programme for primary schools includes school assemblies, workshops and visits to our Discovery Centres and usually attracts more than 65,000 school children a year. We recognise the importance of education in helping build customer trust and wider understanding of our work, as well as in influencing the behaviour of customers by educating future customers about the water cycle. This is why we want to increase the number of children reached each year through the education programme to 75,000 every year between 2020 and 2025.

However, the closure of schools for extended periods and the temporary closure of our Discovery Centres in 2020-21 had a significant impact on our education programme.

When pupils returned to schools in September, we offered live school sessions, utilising Microsoft Teams to engage directly with pupils and school staff. Pupils were given access to a bespoke 360˚ imagery platform, complete with 'hotspots' to promote learning. This will serve as a long-term alternative to face-to-face sessions, allowing rural schools within our operational area to benefit from additional services.

Despite our efforts to amend our content and delivery platforms, school closures, reduced attendance and restrictions on face-to-face delivery has resulted in us only reaching 5,834 school children in 2020-21. Nonetheless, we remain committed to supporting future generations and educating young people about how they can make a difference to their environment.

WATERAID

It has been a challenging 12 months for our WaterAid supporter activities due to the Covid-19 pandemic. In previous years, we focused a lot of our activities on face-to-face fundraising and large-scale events, such as our annual Colleague Challenge (a day of activities with teams from across the business competing against each other) and Gala Ball. We continued to carry out smaller scale, socially-distanced fundraising activities, while for our partners in Uganda the impact has been even more profound, and their focus has shifted to increased campaigning around hygiene and hand washing.

> IT'S BEEN GREAT SEEING COLLEAGUES KEEN TO GET INVOLVED IN FUNDRAISING FOR WATERAID, DESPITE THE PRACTICAL CHALLENGES THIS YEAR!
>
> **STEVE WILSON,** MANAGING DIRECTOR OF WASTEWATER, BUSINESS CUSTOMERS AND ENERGY. CHAIR OF WATERAID IN WALES

To celebrate World Water Day 2021 (22nd March), we undertook a number of fundraising activities during the same week to help raise money to fund some key WaterAid projects. Colleagues also enjoyed a live video link with our friends in Uganda who are benefiting from the money raised.

PRINCE'S TRUST CYMRU

We have also continued our support of the Prince's Trust Cymru, a charity which helps vulnerable young people get their lives back on track. It supports 11 to 30-year-olds who are unemployed, and those struggling at school and at risk of exclusion. This partnership has included fundraising by colleagues through "Million Makers" – and our team of graduates didn't let Covid stop them raising £13,400 through several fundraising activities.

Our Community Fund also pledges to match funds raised by colleagues for WaterAid and Prince's Trust to the value of £15,000 each per year, while individual employees can claim up to £200 match funding for their own charity efforts.

COMMUNITY ACCESS TO OUR SITES

Prior to the pandemic, more than one million visitors a year were coming to our sites, and we continue to invest and progress visitor centre sites to benefit local users and communities:

Swiss Valley Reservoirs, Llanelli: Our first ever community adoption was launched in November thanks to an innovative partnership between Welsh Water and Llanelli Rural Council. Working in partnership with the Council, Natural Resources Wales and Canoe Wales, we secured an Access to Water grant from the Welsh Government. The has enabled the fast tracking of plans to open up the Lower Lleidi for a range of paddle sports. A ramp and pontoon that allows easy access to water for people of all abilities has been installed together with a boat wash for biosecurity; and the toilet facilities have been refurbished and brought back into use. Bank angling has also been enabled through the creation of recreational zones. Local stakeholders are currently working to develop a programme of environmental enhancements, to provide volunteering opportunities for local people.

Lliw Reservoir, Swansea: Working in partnership with Natural Resources Wales, Swansea Council and Canoe Wales, we secured a £103,000 'Access to Water' grant from Welsh Government in November. The grant has enabled visitor improvements at the site and access to water for a range of paddle sports, including stand-up paddle boarding and peddle boarding, canoeing and kayaking. Other improvements include the creation of a circular walking route around the reservoir and upgrading of other trails to improve wheelchair and bicycle access. New interpretation and a nature trail with wood carvings have been installed for visitors to enjoy the nature around the reservoir.

Llys-y-Frân, Pembrokeshire: Our major redevelopment at this location has been delayed as a result of the pandemic restrictions. Llys-y-Frân will reopen in the summer 2021 and benefit from a £4 million redevelopment (supported by £1.7 million of European Regional Development Funds through the Welsh Government). We aim to create a first-class tourism destination, to include a new Outdoor Activity Centre and waterside cabin enabling a range of water sports on the lake. The path around the reservoir has been upgraded and extended to create over 14km of mountain bike trails to explore.

Lisvane and Llanishen Reservoirs, Cardiff: We launched our proposals for this site in late 2020, including a new visitor hub with a water sports centre and restaurant, circular paths and recreation, learning and conservation zones. We received nearly 2,000 responses to our public consultation with more than 86% approving the plans. This is a unique natural resource of significant ecological value - designated as a Site of Special Scientific Interest (SSSI) for overwintering birds and for waxcap fungi, so we need to balance the needs of visitors with protecting the site's ecology. Through the Enabling Natural Resources and Well-being (ENRaW) Scheme and our partnership with the Reservoir Action Group (RAG), Cardiff Council and Cardiff and Vale University Health Board, a community engagement programme has been developed.

Open Water Swimming: Open water swimming is one of the fastest growing water sports in the UK and we have been working with partners to explore how we can safely allow access to water at designated reservoirs for organised activities. Last summer, we worked on a pilot at Llandegfedd reservoir in partnership with Welsh Triathlon and Swim Wales which involved over 700 open water swimmers from four clubs participating in 34 organised swimming sessions. We plan to roll out open water swimming to other staffed sites at Llyn Brenig in Denbighshire and Llys-y-Frân in 2021.

WELSH LANGUAGE

The Welsh Government has set a target of doubling the number of Welsh speakers by 2050. As a flagship company in Wales, we are committed to supporting this goal and, in 2019, set ourselves the challenge of increasing the proportion of Welsh speakers who are registered to receive our services in Welsh to 25,000 by 2025. Our ambitious target is recognised by the Welsh Language Commissioner as the first of its kind in the private sector in Wales.

To help improve the take-up of Welsh language services, we have invested in ensuring that all our new digital platforms (e.g. live-chat functionality, online account management and virtual exhibitions) are now available in Welsh to allow customers to interact with us and in the language of their choice. There are still some areas being developed (such as emergency texts issued to customers to warn them of any disruption to water supplies that are currently only sent in English). In 2020-21, there are 6,472 customers registered on our Welsh language register. A further 2,575 customers contacted us in Welsh via another contact channel (e.g. web chat) and, on average, we received 6,500 visitors to our Welsh website every month.

We encourage the use of Welsh among our colleagues and have invested in online training to help those who wish to improve their proficiency of this language. This also helps ensure that we have the necessary skillsets to provide an excellent bilingual service.

Llandegfedd Reservoir

OUR SOCIAL RESPONSIBILITIES

OUR PEOPLE

As one of the biggest employers in Wales and serving 3.1 million people across our supply area in Wales and England, we are very aware of our responsibility to our employees and to the wider community. We have set out on page 84 details of some of the additional work we do in the communities in which we are working.

As at 31 March 2021, the Group had 3,602 employees (2020: 3,514). Our success is fundamentally dependent upon our highly engaged and motivated people, and we are committed to developing them to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities that we serve.

EQUALITY, DIVERSITY AND INCLUSIVITY

Our people are our greatest asset and we are passionate about creating a workforce that reflects the diversity of the communities we serve. We are committed to recognising and promoting equality, diversity and inclusivity and treating others with dignity and respect at all times.

To meet our commitment to work to increase the diversity of our workforce and to attract individuals who may otherwise feel that there are significant barriers to employment, we continue to work with charities and organisations such as WISE, Stonewall, Chwarae Teg, Education and Engineering Scheme Wales, Business Disability Forum and the Prince's Trust.

Welsh Water's commitment to a gender diverse workforce is supported by our work with WISE, a campaign for gender balance in science, technology and engineering. Following their 10-step model and attending events such as the STEM Women Careers Fair, means making the right cultural changes that can in turn have a significant impact on attraction, recruitment and retention. We have sought to ensure that greater numbers of women in senior positions take leading roles as mentors and as role models in the business, including taking part in our International Women's Day and International Women in Engineering Day events.

We have signed up and are committed to the Social Mobility Pledge in partnership with the rest of the water industry - we continue to work and partner with schools and colleges providing coaching, mentoring, structured work experience, and apprenticeship opportunities. This year we made sure that the pandemic didn't halt our apprenticeship opportunities and 21 apprentices joined us during the year. We have pledged to open up employee recruitment practices, to promote a level playing field for people from disadvantaged backgrounds or circumstances, and to promote Welsh Water as a supportive environment for colleagues from all backgrounds, beliefs and ethnicities.

Last year we were delighted to have achieved our Disability Employer status and since then we have continued to make changes to create a culture and environment where all colleagues are comfortable and can be themselves. This has resulted in successfully achieving our "Disability Confident Leader" award – we join only 20 other companies in Wales that have achieved this level of award.

We are continuing our membership of the Equality and Human Rights Commission's "Working Forward" initiative – a network committed to making workplaces the best they can be for pregnant women and new parents.

Our team of "Inclusivity Ambassadors", made up of colleagues across each of the Protected Characteristics defined by the Equality Act, have been examining the Company's equality, diversity and inclusivity strategy and working through an action plan together. The ambassadors have created a film, which we share on our careers site and have worked with colleagues across the business to set up employee led network groups, such as LGBT+ and Allies, BAME+, Women at Welsh Water and a Disability network. During the year we also set up a task and finish Re:Think Group to provide a forum for individuals from across the business to be inspired by external speakers to promote inclusivity, and to seek to promote Welsh Water externally as a diverse and inclusive organisation.

To ensure we attract and retain a truly diverse workforce we will continue to:

- engage with relevant organisations and communities that we know are under-represented in our organisation;
- seek relevant ideas and initiatives from our current workforce; and
- offer candidates from under-represented groups a guaranteed interview for any Welsh Water job they apply for, provided they meet the basic criteria for the role.

SUPPORTING OUR COLLEAGUES

During 2020-21 we continued to focus on wellbeing issues across our colleague base, and during the year we appointed a further 11 Wellbeing Champions. We have enhanced the training we offer to managers in relation to mental health and have introduced i-act training and developed a Talking Toolkit. We continue to work alongside mental health charity, Mind Cymru, to help us stay focused on reducing the stigma surrounding mental health and we have spoken at events at NRW and Public Health Wales about the work we have done in supporting colleagues who need assistance.

The focus on mental health wellbeing has been brought into sharp relief with the additional pressures on colleagues as a result of the Covid-19 pandemic. We have been acutely aware of the pressures faced by colleagues working remotely and the anxiety felt by colleagues working in the community as they have had to adapt to new ways of working. Our internal communications campaign "Am I ok?" was the culmination of a focus on mental health wellbeing-related events held throughout the year, and we have held regular "pulse" surveys which have provided snapshots of how our colleagues were feeling and have allowed us to tailor support accordingly.

SUPPORTING OUR SUPPLY CHAIN

During the Covid-19 pandemic we have taken steps to ensure the safety of our capital and operations contractors and to continue to promote fair work practices across our supply chain, despite changes in working practices. We have adopted Covid-19 safe working construction practices, as set out by the Construction Leadership Council, and have re-planned work to enable social distancing, wherever possible, and the use of appropriate PPE. At the start of the pandemic we amended our payment cycle so that invoices were paid within 10 days of approval.

HUMAN RIGHTS

We are committed to respecting human rights in relation to colleagues, and our supply chain. Our internal Code of Conduct was relaunched in December 2020. The Code is supported by several Group policies, including:

ANTI-BULLYING AND HARASSMENT

We respect human dignity and the rights of individuals. Our Group policy articulates how colleagues should behave towards each other. We offer unconscious bias training to all colleagues through eLearning as part of our induction programme for new colleagues.

SUPPLIER CODE OF CONDUCT

We are in the process of implementing our Supplier Code of Conduct. Our suppliers play an essential part in enabling us to deliver services to our customers and we expect all of our suppliers to operate to the highest standards of openness, honesty, integrity and business ethics as set out in the Code.

SAFEGUARDING

We are committed to ensuring that colleagues who work with children and vulnerable adults are properly supported, and this year we have held a series of training events for designated safeguarding leads and their deputies who work with children and vulnerable adults.

During the year we also became corporate subscribers to the "Safe spaces" initiative – which provides a link to support for individuals suffering domestic abuse. The link - which includes an "Escape" feature in case the person viewing the information is disturbed - is now visible on our customer website pages.

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.

MODERN SLAVERY ACT 2015

Our Anti-Slavery Policy sets out Welsh Water's commitment to acting ethically and with integrity in our supply chain arrangements and to ensuring fair work practices across our business. In 2020 the Procurement Department commenced the supply chain mapping of commodity supplies and services that may be at greater risk of modern-day slavery. Our People and Change Team maintains recruitment polices to protect against slavery and human trafficking in our own operations and we are working towards meeting the Welsh Government's 12 commitments in its Code of Practice on Ethical Employment in Supply Chains.

Our Anti-Slavery statement can be found at **dwrcymru.com/antislavery**.

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.

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 **dwrcymru.com/legal-privacy**.

Our policies also reinforce the role of individuals in keeping information secure and accurate. The Technology Committee of the Board regularly reviews our approach to cyber security risk (see the report of the Chair of the Technology Committee on page 128).

OUR GOVERNANCE OVER CLIMATE-RELATED RESPONSIBILITIES

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TFCD) REPORTING

ENERGY USE AND GREENHOUSE GAS EMISSIONS

We are committed to becoming fully carbon neutral, or better, by 2040 and are targeting a 90% reduction of our total footprint by 2030. The scope of this target includes all the operational and embedded emissions that are within Welsh Water's operational control.

The current Ofwat Performance Commitment associated with our carbon footprint, is percentage "Energy Self-Sufficiency", which indicates how much of the Company's energy demand (electricity and natural gas) is being met by its own renewable generation assets or by third party renewable energy generators supplying Welsh Water directly via a private wire connection. Our target is to increase our energy self-sufficiency to 35% by 2025, with the aim to reach 50% by 2030, to enable us to meet our overall 2030 carbon footprint reduction target.

This section provides information covering the following areas:

- Our Strategy for dealing with Climate Change related issues
- Our Governance
- Risk Management
- Metrics including methodology used to measure our carbon footprint and energy consumption for 2020-21

CLIMATE CHANGE – OUR STRATEGY

Over the last few years, it has become apparent that our assets are being impacted by Climate Change-related weather events, particularly severe storm conditions, on a more frequent basis than we have experienced in the past. We are investing in ensuring our assets are as resilient as possible, and improving our business continuity planning to ensure we can recover more quickly on occasions where storm events impact the operation of our assets.

- We have improved the flooding resilience of key assets (Mayhill water treatment works and Whitborne wastewater treatment works).
- To improve our general operational resilience, we have delivered large scale capital investment schemes such as the new Bewdley Bank service reservoir in Hereford and Prioress Mill pumping station in Monmouthshire.

PROGRESS TO CARBON NEUTRALITY

We have been reporting our operational carbon footprint since the beginning of AMP5 using the UKWIR Carbon Accounting Workbook/tool (CAW). In 2020 a study was undertaken with an external consultant to estimate the carbon sequestrated by our land holdings and to start to estimate the embedded carbon emissions (mainly associated with our capital investment programme). To reflect the strategic decision to incorporate embedded carbon emissions and impact of our landholdings as part of our future target setting, the historical carbon footprint has been estimated by superimposing the embedded emissions and impact of landholdings with the operational emissions that have been reported previously.

The graph below shows the estimated total carbon footprint of the Company, provides a breakdown of the main carbon emission sources (i.e. net emitters, and net carbon sinks), and illustrates the good progress we have made to date on reducing our total carbon footprint (both operational and embedded) over the last decade, resulting in a 65% reduction compared to a baseline footprint of 335kton in 2010-11.

This improvement is mainly driven by the decarbonisation of our electricity consumption. The emissions associated with the gross electricity consumption has been offset by a combination of company owned renewable generation, private wire power supplies, and the purchase of Renewable Energy Guarantee of Origin (REGO) backed electricity from our supplier. The latter results in a net zero electricity supply (market based), excluding the transmission and distribution losses, which have been included in our scope 3 emissions.

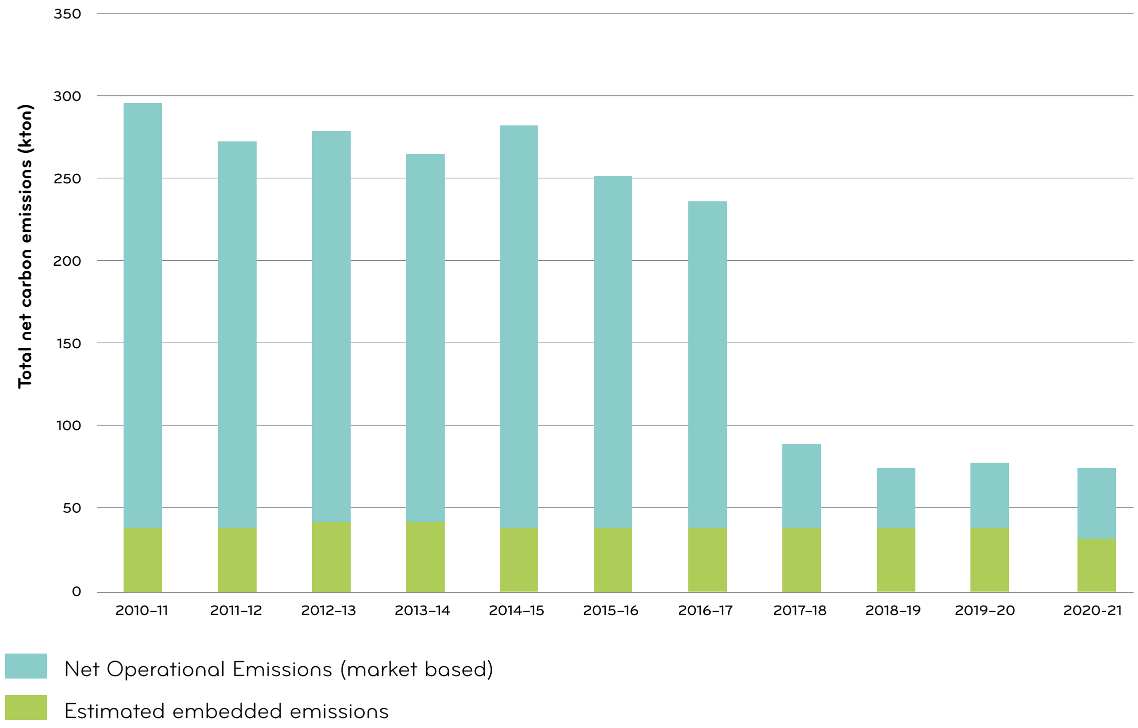
To increase our energy self-sufficiency to 35% from our current level of 23%, we continue to invest in renewable energy generation technologies. The investment will be heavily focused on reducing energy consumption in response to the trend of Welsh Water's gross energy consumption continuing to increase year-on-year, as a result primarily of increased use of electricity in pumping waste water during climate-change related storm events. To reach the targeted 35% we aim to spend £21 million on energy investment and renewable generation in AMP7.

Following the roadmap development and associated detailed review of the Carbon Accounting Workbook by Water UK, it has been established that the UK water industry has been under-reporting the fugitive greenhouse gas emissions (scope 1, mainly nitrous oxide (N_2O)) associated with wastewater treatment by at least a factor of two. This under-reporting has been corrected and following the decarbonisation of electricity, the process and fugitive emissions are now the largest single operational emission source, with an estimated level of 37 $ktCO_2e$ per year.

More sector research is required to understand the actual level of historical under-reporting of these emissions and what can be done to control and mitigate these emissions going forward. We will undertake research activities in this area in 2021-22, which will support the wider water sector research programme delivered by UKWIR. To support the delivery of the 2030 and 2040 targets, the maturity of accounting for process, fugitive and embedded emissions will need to improve to a similar level to that of our energy consumption-related emissions.

To better assess the overall climate change impact of the Company, we have started to assess the impact that our significant land holdings (including reservoirs, forestry, and peat bogs) have on climate change through carbon sequestration. These scope 3 emissions have been assessed for the first year in 2019-20. The study undertaken by Ricardo, Energy and Environmental consultants,showed that on average a net amount of 88 $ktCO_2$ is sequestrated over a 5-year period (equivalent to 88 $ktCO_2$ per annum), of which the majority is mainly from the woodland owned by Welsh Water (which excludes land which is leased to NRW).

OUR CARBON FOOTPRINT SINCE 2010-11



OUR GOVERNANCE OVER CLIMATE-RELATED RESPONSIBILITIES

GOVERNANCE

Progress towards meeting our carbon emission reduction targets is monitored by the Board on a regular basis and particular issues are picked up through the regular risk reporting procedures.

RISK MANAGEMENT

The processes for identifying, assessing and managing climate-related risks are fully integrated with our strategy for delivering our performance objectives for 2020-25, our Welsh Water 2050 vision, and our risk management processes (set out in detail on page 66). Issues that affect individual assets or services areas will be discussed in team meetings and noted on the register to be escalated as appropriate. The Executive team review environmental and Climate Change risks at monthly meetings and Climate Change-related changes to risk profiles are reported to every Board meeting, while current Climate Change-related issues are reviewed in detail at meetings of the Quality and Environment Committee of the Board.

NET OPERATIONAL CARBON EMISSIONS 2020-21

(MARKET BASED)

73,980 TONNES CO_2 EQUIVALENT

ENERGY SELF-SUFFICIENCY

(OFWAT PERFORMANCE COMMITMENT)

23%

METRICS AND METHODOLOGY – HOW WE MEASURE OUR CARBON FOOTPRINT AND ENERGY CONSUMPTION

Dŵr Cymru monitors and measures its carbon footprint by using the UK water industry carbon accounting tool (also known as the Carbon Accounting Workbook), which follows the 2013 UK Government Environmental Reporting Guidance and the GHG Protocol Corporate Accounting and Reporting Standard (2015). For Welsh Water Organic Energy, we monitor and measure its carbon footprint using the Protocol for the quantification of Green House Gas emissions from waste management activities, which also follows the GHG Protocol Corporate Accounting and Reporting Standard (2015). In the first quarter of financial year 2021 the net operational carbon emissions (market based) for 2019-2020 and 2020-2021 for Glas Cymru Cyfyngedig have been verified to ISO14064 Part 1 2018 and CEMARS (Certified Emissions Measurement and Reduction Scheme).

The reported carbon footprint includes direct, indirect and other emissions (also known as scope 1, 2 and 3 emissions) that are deemed in our operational control. The sum of the three scopes are the net operational carbon emissions (using the market-based methodology). For completion the gross operational carbon emissions trend (location-based methodology) are presented in the table below.

The reported carbon emission footprint currently does not include the embedded carbon emissions associated with the capital investment programme (capital carbon) and chemical use. Current best estimates of the annual carbon footprint associated with these embedded emissions, alongside an estimate of the net carbon sequestration of our land holdings, based on a study that was undertaken in 2020, are also presented in the table below.

The Group's total energy consumption and energy saving potential is reported every four years to comply with the Energy Savings Opportunity Scheme (ESOS) regulation. However, Dŵr Cymru's energy use is also reported annually as part of the Annual Performance Report and the energy consumption is calculated in line with Ofwat's Regulatory Accounting Guidelines.

Energy Use and Greenhouse Gas Emissions Year on Year The information in the table meets the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations.

Carbon footprint metrics	Units	2019-2020	2020-2021	Comments
Total Gross Operational Carbon Emissions	tCO_2e	186,174	176,775	Location-based gross total
Scope 1 emissions	tCO_2e	57,373	56,768	Fossil fuel use (heating and transport) and emissions associated with treatment processes
Scope 2 emissions	tCO_2e	110,409	103,588	Purchased electricity (import)
Scope 3 emissions	tCO_2e	18,392	16,419	Business travel, outsourced activities and transmission and distribution losses associated with electricity use

Carbon footprint metrics	Units	2019-2020	2020-2021	Comments
Emissions reductions				
Exported Renewables	tCO_2e	-11,528	-9.225	Emissions reductions associated with renewable power that is exported to the grid and netted off against purchased electricity (import)
Renewable electricity procured	tCO_2e	-98,881	-94,364	Renewable Energy Guarantee of Origin backed
Total Net Operational Carbon Emissions	tCO_2e	76,591	73,980	Market-based net total
Water Services	tCO_2e	5,703	6,111	Market-based net total
Wastewater Services	tCO_2e	66,351	64,494	Market-based net total
Retail	tCO_2e	3,712	2,582	Market-based net total
Welsh Water Organic Energy	tCO_2e	826	793	Market-based net total
Carbon intensity				
Water Services	tCO_2e/ML	3	4	Net operational carbon emissions (market based) divided by the distribution input
Wastewater Services	tCO_2e/ML	91	93	Net operational carbon emissions (market based) divided by the volume of wastewater receiving treatment at sewage treatment works
Total Embedded Emissions				
Capital Investment Programme	tCO_2e	(Not available)	31,989	Voluntary reporting requirement to Ofwat – further work is required to standardise a methodology across the UK water sector - the 2021 number is currently an estimate based on a detailed assessment of 20% of the total capital spend
Total carbon sequestration	tCO_2e	-17,632	(Not available)	Estimated carbon sequestration from company land holdings (excluding NRW leasehold land), based on a 2020 study undertaken by Riccardo Energy and Environment
Energy Consumption metrics				
Total Energy Consumption	kWh	572,412	575,505	
Water Services	kWh	244,962	253,464	
Wastewater Services	kWh	327,450	322,042	
Energy intensity				
Water Services	kWh/ML	776	818	Total energy consumption divided by the distribution input
Wastewater Services	kWh/ML	541	518	Total energy consumption divided by the volume of wastewater receiving treatment at sewage treatment works

OUR CULTURE OF "DOING THE RIGHT THING" FOR OUR CUSTOMERS, BEING FOCUSED ON CUSTOMER SERVICE AND DELIVERING UNINTERRUPTED SERVICES IN SPITE OF OPERATIONAL CHALLENGES, HAS STOOD US IN GOOD STEAD TO MAINTAIN WORKFORCE MORALE...

GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

> "THIS YEAR, MORE THAN EVER DURING THE PANDEMIC RESTRICTIONS, GOOD GOVERNANCE HAS BEEN KEY TO UNDERPINNING THE COMPANY'S DECISIONS IN OUR PROVISION OF ESSENTIAL SERVICES TO THE 3.1 MILLION PEOPLE THAT WE SERVE."

GOVERNANCE

During the year ended 31 March 2021, we have applied the principles of good governance and complied with all the provisions contained in Ofwat's Board Leadership, Transparency and Governance Principles and the 2018 UK Corporate Governance Code (the Code). More details are provided on pages 105 and 106.

BOARD CHANGES

As mentioned last year, Menna Richards and Anna Walker both retired from the Board in July 2020, ahead of which Debra Bowen Rees joined our Board in January 2020. In January 2021 we were delighted to welcome Jane Hanson to the Board as a Non-Executive Director and Audit Committee Chair-designate in preparation for John Warren's retirement from the Board at the AGM in July this year, when he will have completed just over nine years' service. Jane has extensive experience in risk management, corporate governance and internal control from her involvement in companies in heavily-regulated markets (for further details, please see her biography on page 104).

We are very grateful to John for his valuable input over the last nine years, and pleased to welcome Jane, who will ably take forward the work of the Audit Committee.

STAKEHOLDERS

The Board is mindful that its decision-making must promote the long-term success of the Company and recognise the interests of the Company's many stakeholders. Our corporate structure, without shareholders, ensures that the key focus of the Board is on the interests of our customers and communities across the Company's supply area (for further detail, please see pages 39 to 44 which includes information about the Company's engagement with its key stakeholders). In the light of the specific provisions in the Code around workforce engagement with the Board, we have continued to review the ways in which we engage with the workforce. Engagement has been through formal and informal meetings, which during the current pandemic have mostly been held remotely by video-conference, although Non-Executive Directors have visited operational sites across our supply area when we were permitted to do so under the Covid-19 restrictions. Non-Executive Directors regularly attend employee engagement sessions which are held with our Employee Engagement Champions and other employees drawn from across business areas and our geographical supply area. During 2020-21 one of these sessions focused specifically on Executive Remuneration and the work of the Remuneration Committee. Further details on our wider engagement with employees and the Directors' Section 172 Statement are set out on pages 39 and 44, respectively.

OTHER ENGAGEMENT WITH OUR PEOPLE

The Board met on 12 occasions during 2020–21. Despite the pandemic restrictions the Board has continued to meet regularly by video-conference and has heard from members of the Executive team and senior managers across the business during the year as well as continuing to meet with Executive team members and managers informally. Induction programmes for Debra Bowen Rees and, more recently, for Jane Hanson following her appointment, have included colleague introduction meetings arranged via video-conference, and while Debra did manage to undertake some site visits during 2020, additional site visits to operational sites and our contact centre will resume as soon as this becomes possible.

KEY FOCUS AREAS IN 2021–2022

Looking ahead to the aftermath of the pandemic and planning for the economic consequences, in particular how we will support our customers.

Focusing on those of our performance objectives where our performance is behind our peers.

Reviewing the Welsh Water 2050 vision as we start to prepare our plans for the PR24 price control covering 2025-2030.

Maintaining oversight of the Company's adoption of Smarter Ways of Working as we emerge from the pandemic restrictions.

Continuing to review the Company's response to Climate Change related weather events, and planning for greater investment in resilience and business continuity planning.

Reviewing succession plans for the Board.

DESPITE THE RESTRICTIONS THE BOARD HAS CONTINUED TO MEET REGULARLY

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

PURPOSE, VALUES AND CULTURE

Our culture of "doing the right thing" for our customers, being focused on customer service and delivering uninterrupted services in spite of operational challenges, has stood us in good stead to maintain workforce morale as we have had to adapt our ways of working during the last year. During this period, direct engagement of the Executive Team and Board members with colleagues across the business has also been important to provide feedback on which the Executive Team can act – for example in reinforcing the importance of using the technology available to us to maintain internal communications, ensuring that managers continue to hold individual feedback meetings with colleagues despite not being able to meet physically. The importance of keeping colleagues and customers safe at all times, maintaining the health and wellbeing of our people, has been a key theme of communications during the pandemic. You can read more on our Purpose, Values and Culture on pages 7 and 107.

KEY FOCUS AREAS DURING 2020-2021

Ensuring the adequacy of steps taken to keep our workforce and customers safe while continuing to deliver essential services.

Determining how best to help our customers address the impact of Covid-19 on their personal and business lives.

Planning, and then commencing, the delivery of the performance objectives and capital plan set by our regulator Ofwat for 2020-25.

Considering our strategic response to the impacts of climate change, including hearing from the Chief Executive of the Royal Meteorological Society, on the likely extent of these impacts.

Recruiting a new Chair of Audit Committee to replace John Warren who will retire at the AGM in July 2021.

BOARD EVALUATION

During the year, I led an internally facilitated evaluation of the Board's performance with support from the Company Secretarial team, to identify opportunities for the Board to improve its effectiveness, building on the recommendations from previous reviews. A summary of the outcomes of the Board's discussion of the evaluation and agreed actions going forward is set out in more detail on pages 114 and 115 of this report.

DIVERSITY AND INCLUSIVITY

Succession planning remains a key area of focus for the Board and the Nomination Committee. This year has seen a renewed commitment across the business to ensuring that the Company is as inclusive as possible to enable those of all backgrounds to reach their full potential. The Board continues to oversee the focus by the Executive Team on promoting diversity in the widest sense, to enhance the range of backgrounds, skills and experience across our workforce and in our executive pipeline, and to ensure that we reflect the communities we serve. The Board has also reflected this commitment to diversity as we review the composition and balance of the Board and ensure that Directors with the appropriate skills and experience and from diverse backgrounds join the Board to bring fresh perspective and challenge. We are pleased to have taken our support of the Parker Review Recommendations, which focus on increasing the ethnic diversity on boards, a step further during the year by approving a target to appoint one Board member from an ethnic minority background to the Board by December 2025. You can read more about our plans on diversity and inclusivity as a company on page 88.

MEMBERS

Our unusual not-for-shareholder structure, where we have Members and not shareholders, means that we are very fortunate to have a record of good attendance at our Annual General Meetings held in July each year. With our AGM in July 2020 and our half-yearly meeting with Members in December 2020 both convened via video conference, this level of attendance improved further as Members from across our supply area were able to attend these meetings without having to travel. As a result of the pandemic restrictions, our Members have not been able to attend in person any tours and events organised by the business during the year but we were able to organise virtual workshops in July and September 2020 on topics such as "Responding to Drought situations" and "Water Quality issues" and "Drainage and Wastewater Management Plans". Members also had the opportunity to hear from the Chair of the Remuneration Committee in relation to the Remuneration Policy for AMP7 in advance of the AGM. This year we will convene the AGM by video conference once again, but hope to be back to meeting in person again soon.

CONCLUSION

Overall, I am confident that the Board has achieved its aim of ensuring strong compliance with the key principles of good governance in all aspects of its decision-making.

Alastair Lyons
Chair of the Board

3 June 2021

GOVERNANCE AT A GLANCE

KEY BOARD DECISIONS

- Approving the Company's response to Covid-19 and how this response was adapted as we understood the impact of the ongoing pandemic on our customers
- Approving the Group's junior Bond issue for March 2021
- Approving the process and appointment of a new Non-Executive Director and Audit Chair Designate with effect from 1 January 2021
- Approving business plans and budgets for 2021-22
- Approving the scheme of charges for 2021-22 with the average water and sewerage bill falling by 2% despite the increased costs caused by the pandemic – the 12th year our bill increase has been at or below inflation
- Approving the adoption of a target of 90% reduction in carbon emissions by 2030 against the baseline 2010-11 emissions, and an aim to achieve 100% carbon neutrality by 2040

See also the list of key decisions which demonstrated the Board's engagement with stakeholders in accordance with section 172 Companies Act 2006 on pages 44 to 46.

BOARD CHANGES

- Chris Jones, former CEO, retired on 31 March 2020 but remained on the Board in an Executive capacity until 15 May 2020
- Non Executive Directors Menna Richards and Anna Walker both retired from the Board at the conclusion of the AGM on 3 July 2020
- Jane Hanson, Non-Executive Director and Audit Chair-designate, was appointed to the Board on 1 January 2021
- John Warren, Non-Executive Director and Audit Chair, will retire from the Board at the conclusion of the AGM to be held on 2 July 2021.

KEY GOVERNANCE CHANGES

During the year, the Board implemented the following improvements:

- the Board's procedures and Committees' Terms of Reference were further reviewed and updated
- additional arrangements were made for Non-Executive Directors to meet more frequently with Employee Engagement Champions, senior managers and other employees from all areas of the business
- the timing of Board meetings was reviewed and agendas split across an evening and subsequent all-day meeting to ensure adequate time for decision-making
- our "bottom up" risk reporting was formalised to ensure streamlined reporting of risks from teams across the business
- a new Committee has very recently been established to oversee the Group's Environment, Social and Governance reporting, to be chaired by Debra Bowen Rees.

Glas Cymru Board Meeting – March 2021

GOVERNANCE AT A GLANCE

GOVERNANCE FRAMEWORK

We pride ourselves on conducting our business in an open and transparent manner. Our governance framework remains flexible, allowing for fast, efficient and effective decision-making and management oversight.

Our governance framework demonstrates how the Board monitors the performance of our operations, governance, risk and controls, while maintaining oversight over the way the business is operated by the Executive team and its constituent management committees. These are responsible for implementing the strategy agreed by the Board to achieve the Company's medium and long-term objectives and deliver the required operational performance targets in accordance with an established risk management framework, compliance policies, internal control systems and reporting requirements.

The Executive team appointed by Peter Perry since taking the role of Chief Executive Officer comprises 16 individuals representing all the key functions of the business, and is closely supported by our risk management and business assurance functions.

Supporting the Executive team there is a clearly defined management structure and governance framework, consisting of sub-committees and project-specific steering groups, which operate within defined terms of reference and in accordance with our Group policies. All decisions made by individuals or by committee which involve financial spend or an associated risk are governed by the Group's established Delegation of Authority. This authority is structured to ensure that day-to-day operational decisions can be taken efficiently, while ensuring higher-risk and high-value commitments for approval go through the appropriate channels.

By maintaining this structure of management control, Welsh Water's operations are run effectively and decisions are made in line with our commitment to our values to always do the right thing. This structure also ensures that all decision-making is adequately informed and is supportive of the Directors' duties under Section 172 of the Companies Act 2006 to act in a way that reflects:

- the need to foster the Company's business relationships with suppliers, customers and others; and
- the impact of the Company's operations on the community and the environment, and the desirability of the Company maintaining a reputation for high standards of business conduct.

Details of how we engage with our key stakeholders and examples of how the Board has taken their interests into consideration during the year are described in the Section 172 Statement on pages 39 and 44.

Glas Cymru Members' Meeting: Tour of Zonal works, Llanelli

OUR MEMBERS

Individuals independently drawn from across our supply area (with no financial stake in the business) who hold the Board to account for the stewardship of our assets and for providing an essential public service.

THE BOARD

Responsible for the overall conduct of the Group's business including our long-term success; setting our purpose; values; standards and strategic objectives; reviewing our performance; maintaining oversight of our governance framework; and ensuring a positive dialogue with our stakeholders is maintained.

AUDIT COMMITTEE

Reviews the integrity, adequacy and effectiveness of the Group's system of internal control and risk management and related compliance activities.

NOMINATION COMMITTEE

Reviews Board composition and ensures Board diversity and balance of skills.

Reviews Board and Executive Committee succession plans to maintain continuity of skilled resource.

Responsible for the process of recruiting new Directors and their proposal to the Board for appointment.

REMUNERATION COMMITTEE

Sets, reviews and recommends the policy on remuneration of the Chairman, the Executive Directors and the senior management team.

Determines the remuneration of the Chairman and the Executive Directors in accordance with the Remuneration Policy.

Maintains oversight of the remuneration policies and practices for the whole workforce having regard to these when determining the remuneration of the Executive Directors.

QUALITY AND ENVIRONMENT COMMITTEE

Reviews and monitors risks to the business arising from operational, environmental and health and safety related issues.

Scrutinises operational performance and targets and the improvement strategies of the Water and Waste Activities.

Maintains a positive dialogue with relevant stakeholders, in particular environmental and water quality regulators.

FINANCE COMMITTEE

Makes decisions on financial matters in between Board meetings as and when required.

TECHNOLOGY COMMITTEE

Reviews the development and implementation of the Group's Digital Strategy.

Maintaining oversight of the effectiveness of the Group's information technology (IT), operational technology (OT) and information security provision in support of the achievement of the Group's medium-term business objectives.

EXECUTIVE COMMITTEE

Comprising the leaders of the principal business units and functional areas, the Executive Committee is appointed by the CEO to support him in the performance of the CEO's duties including the development and implementation of strategy, operational plans, policies, procedures and budgets; the monitoring of operating and financial performance; the assessment and control of risk; and the prioritisation and allocation of resources.

SUPPORTING COMMITTEES AND GROUPS

Key Executive Level Forums which support the Executive Committee

STRATEGIC CHANGE COMMITTEE

CAPITAL PROGRAMME GROUP

INFORMATION SECURITY STEERING GROUP

REGULATORY GROUPS

OTHER INTERNAL STAKEHOLDER GROUPS

BOARD OF DIRECTORS

ALASTAIR LYONS CBE
CHAIR OF THE BOARD

Appointed: May 2016

F R Q N CHAIR T

Responsibilities
Alastair was appointed Non-Executive Director in May 2016 and was deemed independent on his appointment as Chair of the Board in July 2016. He is also Chair of the Nomination Committee.

Skills and Experience
A chartered accountant by training, Alastair has 20 years' experience as a non-executive chairman of both listed and private companies. During an extensive executive career in financial services, he was Chief Executive Officer of both the National Provident Institution and the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc. He was awarded the CBE in 2001 for services to social security having served as a Non-Executive Director of both the Department for Work & Pensions and the Department of Transport.

Other past experience
Chairman of the Admiral Group, the direct motor insurer, from 2000 to 2017, Chairman of Towergate Insurance, Chairman of Serco, the international services group, Deputy Chairman of Bovis Homes, and Senior Independent Director at Phoenix, the life assurance consolidator.

Current external appointments
Chairman of Harworth Group plc, Vitality UK, AECS, the Admiral Group's European holding company, and the Eaton House Schools Group.

GRAHAM EDWARDS
SENIOR INDEPENDENT
NON-EXECUTIVE DIRECTOR

Appointed: October 2013

A N Q CHAIR

Responsibilities
See summary on page 126.

Graham was appointed Senior Independent Director in July 2020. He is also Chair of the Quality and Environment Committee.

Skills and experience
Graham is currently Chief Executive Officer of Wales & West Utilities. He has significant senior management experience in the utility sector running electricity distribution and water businesses with South Wales Electricity, Hyder and Thames Water. Prior to working in utilities he held senior positions in various functions across a wide range of manufacturing businesses including Engineering, Production and Human Resources. Graham has an MBA from Cardiff Business School and is a Fellow of the Chartered Institute of Personnel and Development.

Other past experience
Chair of CBI Wales and Business in the Community Wales. Non-Executive Director of the Royal College of Music and Drama.

Current external appointments
Board member of the University of South Wales.

PETER PERRY
CHIEF EXECUTIVE OFFICER

Appointed: October 2017

F N Q T

Responsibilities
Within the strategies set by the Board, to manage the Group's business effectively.

Skills and experience
Peter was appointed Chief Executive Officer in April 2020. He was the Managing Director of Dwr Cymru Welsh Water from October 2017 after four years as Chief Operating Officer. Appointed Operations Director of Welsh Water in July 2006, Peter has a civil engineering background and was formerly the Chief Operating Officer for United Utilities Operational Services (UUOS), having previously been the Operations Director with responsibility for the operational contract with Welsh Water and UUOS's water interests in Scotland and Ireland. Prior to that he worked for Welsh Water for over 20 years.

Other past experience
Director (representing Wales) at The Water Regulations Advisory Scheme, the national body specifying standards for materials and workmanship used in potable water supply.

Current external appointments
Chair of Business in the Community Cymru – HRH The Prince of Wales' Responsible Business Network, dedicated to challenging companies to be more responsible in their impact on communities and the planet. Member of the Water UK Board.

MIKE DAVIS

CHIEF FINANCIAL OFFICER

Appointed: January 2020

F

Responsibilities
Primary responsibility for the Group's financial operations.

Skills and experience
Mike graduated as a chemical engineer and is a Chartered Accountant by profession. He has previous experience in the Media, ICT and Mining industries including as Finance Director for two private equity start-up businesses. Mike previously held the positions of Director of Strategy and Regulation and Financial Controller at Welsh Water, with a focus on regulatory price reviews and competition.

Other past experience
Non-Executive Director at RCT Homes, a registered social landlord, chairing its Asset Management Committee and Treasury Committee. Director of UK Water Industry Research.

DEBRA BOWEN REES

NON-EXECUTIVE DIRECTOR

Appointed: January 2020

A Q R

Responsibilities
See summary on page 111

Debra is also a Member, representing the Board on the Independent Member Selection Panel, which recommends the appointment of Members to the Board.

Skills and experience
Debra has a wealth of experience in leadership and management, including managing safety-critical, regulated infrastructure. After a successful career and a number of senior positions in the Royal Air Force, Debra joined Cardiff Airport in 2012 as Operations Director, before being appointed Managing Director in 2014. She became the Chief Executive of the Welsh Government-owned airport in 2017 and was responsible for leading the airport through a period of transformational change. In August 2020, Debra stepped down as Chief Executive of Cardiff Airport and subsequently from the Board of Directors in September 2020.

Current external appointments
Chair of the South West Wales Branch of the Institute of Directors. Non-Executive Director of the Port of Milford Haven. Trustee and Board Member at Hijinx Theatre Company.

PROF. TOM CRICK MBE
NON-EXECUTIVE DIRECTOR

Appointed: October 2017

Q T CHAIR

Responsibilities
See summary on page 128

Tom also Chairs the Technology Committee.

Skills and experience
Tom is Professor of Technology & Policy at Swansea University, with his academic interests sitting at the research/policy interface – from data science, cyber security, and intelligent systems, through to digital public services and national infrastructure. He has provided expert advice to both the Welsh and UK Governments across a number of policy areas, and is also a Commissioner of the National Infrastructure Commission for Wales. Tom is a Chartered Engineer and Chartered Scientist and Fellow of the Learned Society of Wales. He was appointed MBE in the 2017 Queen's Birthday Honours for services to computer science.

Other past experience
Vice-President of BCS, The Chartered Institute for IT.

Current external appointments
Commissioner of the National Infrastructure Commission for Wales. Non-Executive Director of Sector Development Wales Partnership Ltd. (a Welsh Government organisation known as Industry Wales) and Swansea Bay University Health Board.

BOARD OF DIRECTORS

JANE HANSON
NON-EXECUTIVE DIRECTOR

Appointed: January 2021

A Q

Responsibilities
See summary on page 111

Jane will take up the role of Audit Committee Chair on John Warren's retirement from the Board at the AGM in July.

Skills and experience
Jane is a qualified Chartered Accountant and has extensive experience of Enterprise Risk Management, Corporate Governance and Internal Control frameworks in heavily regulated, FTSE, Not for Profit and private sector organisations. She also has wide experience of developing and monitoring customer and conduct risk frameworks and overseeing large and complex IT and transformation programmes. Jane is also a magistrate.

Other past experience
Non-Executive Director at Direct Line Group plc (Chair of Group Board's Risk Committee), William Hill plc, Old Mutual Wealth plc (Chair of Board Risk Committee) and Aviva Ireland (Chair of Audit Committee), and Independent Member of the Customer Fairness Committee at ReAssure Ltd.

Current external appointments
Chair of The Reclaim Fund Ltd. Non-Executive Director of Rothesay Life plc. Honorary Treasurer at the Disasters Emergency Committee.

JOANNE KENRICK
NON-EXECUTIVE DIRECTOR

Appointed: November 2015

A N R CHAIR T

Responsibilities
See summary on page 130

Joanne was appointed Chair of the Remuneration Committee in July 2020, having served as a member of the Committee since September 2019 and as Chair of another Remuneration Committee for more than 12 months.

Skills and experience
Joanne was the Marketing Director for Homebase until the end of 2015. Prior to that, Joanne was CEO of Start, setting up and running HRH the Prince of Wales' public facing initiative for a more sustainable future. Former roles include Marketing and Customer Proposition Director for B&Q, Marketing Director for the National Lottery, and Group Sales and Marketing Director at Wilson Connolly. Joanne has also worked for Woolworths, Asda, Pepsico and Masterfoods. Joanne has a degree in Law from Nottingham University, and whilst at college she was one of the first women ever trained to fly by the RAF.

Other past experience
Non-Executive Director at Principality Building Society and BACS Payment Services Limited.

Current external appointments
Senior Independent Director, Deputy Chair and Chair of the Remuneration Committee at Coventry Building Society. Non-Executive Director of Safestore, the UK's largest self-storage business. Independent Chair of the Current Account Switch, Cash ISA Switch, and PayM Mobile Payments Services for Pay.UK. Chairman of the trustees of the children's charity, Make Some Noise.

JOHN WARREN
NON-EXECUTIVE DIRECTOR

Appointed: May 2012

A CHAIR F CHAIR T R

Responsibilities
See summary on page 120

John is also Audit Committee Chair up until he retires from the Board at the AGM in July.

Skills and experience
John is a qualified accountant with more than 25 years' experience in senior finance roles and has extensive experience in chairing Audit Committees of major UK listed companies. Until his retirement in 2005, he was Group Finance Director for WH Smith PLC and, before that, United Biscuits (Holdings) Plc.

Other past experience
Non-Executive Director and Chairman of the Audit Committee of 4imprint Group plc, Greencore Group plc, Spectris plc, Rexam Plc, Bovis Homes Group PLC, Rank Group Plc, Uniq Plc, Arla Foods UK Plc, and BPP Holdings plc.

Current external appointments
Non-Executive Director and Chairman of the Audit Committee of Bloomsbury Publishing Plc.

CORPORATE GOVERNANCE REPORT

HOW WE MEET THE PROVISIONS OF OFWAT'S GUIDANCE ON BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

We are committed to meeting our obligations under Ofwat's Guidance on Board Leadership, Transparency and Governance (the "Guidance") as updated in 2019 and as required by our Licence conditions. During the financial year to 31 March 2021, we consider that we have continued to meet all four of the Objectives as follows:

Guidance Provisions	How We have Complied with the Provisions	Further information
Purpose, Values and Culture	The Board of the Appointee (or otherwise referred to as, Dwr Cymru Cyf. our regulated company or the Company) has established the Company's purpose, strategy and values, and is satisfied that these and its culture reflects the needs of all those it serves. Our vision and culture underpin our decision-making and are monitored by the Board (see definition of the Board below). The Company Direction and Performance Statement sets out how the Company has set its aspirations and has performed for all those it serves.	See pages 6 to 9 Annual Performance Report is available from mid-July 2021 on our website: **dwrcymru.com/annualperformancereport**
Standalone Regulated Company	Dwr Cymru Cyf. has an effective Board with full responsibility for all aspects of the business of the Appointee for the long term. We have an identical Board of Directors for our holding company, Glas Cymru Holdings Cyf. and Dŵr Cymru Cyf. (the "Board") as our sole focus is on providing essential services to our customers at the lowest possible cost. Our Corporate Governance Report sets out in detail the role of the Board and those matters which are delegated to Committees, all of which report into the Board.	See pages 107 to 111
Board Leadership and Transparency	The Board's leadership and approach to transparency and governance engenders trust in Dwr Cymru Cyf. and ensures accountability for its actions. Information on the following are published in this Annual Report: our group structure; dividend policy; principal risks and uncertainties; details of Board and Committee Memberships; meeting attendance; and executive pay policy.	Group structure (see page 211) Dividend Policy (page 65) Principal Risks and Uncertainties (page 68) Board and Committee Membership and Meeting Attendance (pages 102 and 112) Executive pay policy (pages 136 and 137)
Board Structure and Effectiveness	The Board and its Committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs. We keep under review the balance of skills, experience and independence on our Board, which has a majority of Non-Executive Directors, and the membership of our key Board Committees. An annual Board and Committee effectiveness review is undertaken – every three years this is conducted by an independent external evaluator.	Board biographical details including Committee memberships (pages 102 to 104) Board skills and experience of the Board (pages 102 and 119). Information about the independence and objectiveness of our Directors (page 113) The conclusions of our 2020-21 internally facilitated Board Effectiveness review can be found on pages 114 and 115

CORPORATE GOVERNANCE REPORT

HOW WE MEET THE PROVISIONS OF THE UK CORPORATE GOVERNANCE CODE

Sound corporate governance is an essential feature of our decision-making which generates value for our stakeholders and allows us to deliver an essential public service.

Our governance processes are in pursuit of the Company Purpose and are based on transparency and fairness, underpinned by the values of the Group.

Ofwat's Principles of Leadership, Transparency and Governance and the UK Corporate Governance Code 2018 (the "Code") are the standards against which we measure our governance practices.

We have applied the Code's principles and complied with its provisions during the financial year.

Our Annual Report for 2019-20 noted that we had not fully complied with Provision 41 of the Code, as regards engaging with the workforce to explain how executive remuneration aligns with wider company pay policy. This year (2020-21) some of our Non-Executive Directors held a specific employee engagement session with workforce representatives to discuss the principles of executive remuneration and the role of the Remuneration Committee, as part of the regular Employee Engagement sessions that take place with both the Executive team and our Non-Executive Directors. These engagement sessions provide a forum for employee queries to be discussed, by way of elected representatives, across a broad range of topics. For more details on the employee engagement sessions held during the last year please see page 108.

The sections of this report set out how we have complied with the provisions of the Code, the main principles of which cover the following areas:

Section of the Code	Further information
Board leadership and company purpose	See pages 107 to 109
Division of responsibilities	See pages 110 to 113
Composition, succession and evaluation	See pages 114 to 119
Audit, risk and internal control	See pages 120 to 129
Remuneration	See pages 130 to 148

Operational Site Visit at Sluvad Water Treatment Works, Pontypool – Debra Bowen Rees and Jane Hanson

BOARD LEADERSHIP AND COMPANY PURPOSE

HOW WE APPLY THE PRINCIPLES OF THE CODE

- The dynamics of our Board is of a collegiate Board that is effective at promoting the achievement of the Company's medium and long term objectives in the context of its Purpose.
- The Board has established the Company's purpose, values and strategy and is satisfied that these and our culture are aligned and will deliver wider societal value. Our Directors act with integrity, lead by example and always seek to promote the desired culture.
- The Board has oversight of the implementation of strategy, and ensures that the necessary resources are in place for the Company to meet its objectives against which it measures the Company's ongoing performance. The health and safety of our people and our customers is always the principal concern of the Board. It has also established a framework of prudent and effective controls, which enable risk to be assessed and managed.
- In order to meet its responsibilities to the wider stakeholder group, including governments, our regulators, our customers, and our people, the Board ensures there is effective engagement with, and encourages, input from them.
- The Board ensures that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. Colleagues can raise any matters of concern through their elected representatives' regular meetings with the Non-Executive Directors or, confidentially, via the Business Assurance team or the dedicated whistleblowing phone to which we subscribe.

THE BOARD

The Board is responsible for promoting the long-term, sustainable success of the Group for the benefit of its stakeholders and is the principal decision-making forum for the Group, intent on providing inspirational leadership, both directly and through its Committees, and delegating authority, as appropriate, to the Executive team. The Board has determined the Group's Purpose which is consistent with its values and supported by its strategy, and is satisfied that the Group's culture is aligned with the achievement of that Purpose.

The Board is responsible for organising and directing the affairs of the Group in a manner that delivers its agreed medium and long-term objectives. Through the effective governance framework that it has in place, the Board delivers its strategy of providing strong and sustainable financial and operational performance, which is especially important to the Group given the long-term nature of investment needed in its core services to customers. The Board is also accountable for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met, and that it operates within appropriately established risk parameters.

The Board sets the strategy of the Group based on proposals formulated by the Executive team and it reviews the progress achieved by the management of the business in meeting the agreed strategic objectives. The Board's long-term goals for the Company, in the context of future challenges and changing customer expectations, are set out in our published strategy document, Welsh Water 2050. Details of the strategy are set out in the Strategic Report of this Annual Report and Accounts (see page 25). The Board is mindful of its role as custodian of a long-term business, with an obligation to ensure that the next generation receives the assets it needs to deliver the Company's Purpose.

In February 2021 the Glas Board adopted targets for carbon reduction and ultimately for net zero carbon emissions. The decision taken was to adopt a target of 90% reduction in carbon emissions by 2030 (against the baseline 2010-11 emissions), and to aim to achieve 100% carbon neutrality by 2040. This decision follows the Welsh Government's declaration of a climate emergency in April 2019, the publication of widespread and compelling evidence to support the need for urgent action, and extensive engagement with our independent environmental advisory panel, comprised of a broad range of environmental NGOs, Welsh Government, our Regulators, customer representatives, land and farming representation, industry and academics.

CORPORATE GOVERNANCE REPORT

MAIN BOARD DISCUSSIONS DURING 2020-21

See also the list of key decisions which demonstrated the Board's engagement with stakeholders in accordance with section 172 Companies Act 2006 on pages 44 to 46, and the list of key decisions on page 99.

Below are some examples of the interaction by Board Members with colleagues and other third parties during the year. Unless otherwise stated, all engagement has been carried out remotely via video conferencing.

RELATIONS WITH EMPLOYEES

EMPLOYEE ENGAGEMENT CHAMPIONS AND REPRESENTATIVES OF TEAMS ACROSS THE BUSINESS

Employee Engagement Sessions to discuss a range of topics to including the Company's response to Covid-19; the role of the remuneration committee and issues facing the business since Covid-19; charging for water services, cyber security culture, developing ways of working in a post-Covid-19 workplace; customer services issues and carbon neutrality initiatives.

BOARD "LUNCHES" INFORMAL MEETINGS WITH MANAGERS (VIA VIDEO CONFERENCING)

Attended by all Board Members.

OPERATIONAL SITE VISITS (LIMITED IN 2020-21 BY PANDEMIC RESTRICTIONS)

June 2020 – Alastair Lyons
Kinmel Park Depot
Bretton Water Treatment Works

August 2020 - Debra Bowen Rees and Tom Crick
Felindre Water Treatment Works
Gowerton Wastewater Treatment Works

September 2020 – Alastair Lyons
Leominster Wastewater Treatment Works
Bewdley Bank Service Reservoir Extension
Broomy Hill Depot
Eign Wastewater Treatment Works

October 2020 – Debra Bowen Rees
Retail Services, Linea (St Mellons)
Cynon Wastewater Treatment Works
Lower Carno Reservoir

December 2020 – Alastair Lyons
Denbigh Depot
Bryn Cowlyd Water Treatment Works

December 2020 – Debra Bowen Rees
Cog Moors Wastewater Treatment Works (Advanced Anaerobic Digestion)

March 2021 – Debra Bowen Rees and Jane Hanson
Cryptosporidium teach-in (via Microsoft Teams) by colleagues based at Glaslyn laboratories.

FEEDBACK RECEIVED FROM AN EMPLOYEE ENGAGEMENT CHAMPIONS SESSION WITH NON-EXECUTIVE DIRECTORS

"I really enjoyed the meeting and the open format...it has benefited me mentally, and given me a boost, from speaking with other colleagues and the Non-Executive Director about any concerns from myself and my team."

"Really enjoyed the session, it has improved my mood today and further increased my trust in the leadership of the company."

"The questions were broad enough to stimulate some really varied discussions and the hand raising function (Microsoft Teams) was great for letting everyone have their voice heard. Really enjoyed it, thanks for giving us all the opportunity!"

"Really enjoyed the session, was great to have a platform to talk about the operations point of view."

BOARD LEADERSHIP AND COMPANY PURPOSE

OUR MEMBERS AND INVESTORS

We apply listed company principles on governance to our Members and (Bond) Investors. We have regular dialogue both with our Members and Investors which is set out below. For further details about our Glas Members, see the governance framework diagram on page 101.

Our 60 Glas Members (this total excludes our nine Board Members who also serve as members) are appointed by the Board but are selected by an independent Member Selection Panel which aims to maintain the Members as a balanced and diverse group, broadly reflective of the range of our customer and other key stakeholders' interests. The independent Chair of the Member Selection Panel is Sir Paul Silk, and the other members of the Panel during the year were Menna Richards (a former Non-Executive Director), Arthur Walford (former Company Secretary of Bupa Plc) until July 2021, and Chris Jones (former CEO).

During 2020–21, no Members retired, one Member stepped down and nine new Glas Members were appointed following an advertised (via social media) and open recruitment process. On appointment, new members are invited to a full day's induction which is usually held at one of our operational sites. During 2020-21, the induction was held via video conference, although introductory site visits are planned.

RELATIONS WITH MEMBERS

AGM, HALF-YEARLY MEETING AND QUARTERLY WORKSHOPS

- The Board uses regular general meetings to communicate with our Members, including updates on the Group's performance and strategy.
- Debra Bowen Rees (and Menna Richards up until July 2020) takes a particular interest in Glas Members and is available to meet with any Member outside of scheduled meetings.

DIALOGUE WITH COMPANY SECRETARIAT

- Regular dialogue via email (and/or via a Members' LinkedIn Group where Members can communicate with other Members) on up-to-the-minute progress updates on operational events affecting the business including extreme weather events and, since last year, Covid-19.
- Fortnightly Press coverage via email and intermittent emails to update Members on issues affecting the business.

MEMBERS SELECTION PANEL

- The Company Secretariat liaises with the Panel periodically to seek feedback on the format and content covered at Members' meetings and in relation to the annual Member Recruitment process, following which the Panel recommends the final list of candidates to Board for appointment.

RELATIONS WITH INVESTORS

REGULAR COMMUNICATIONS

We are wholly debt-financed and raising debt at a low cost is a key part of our financial strategy. We maintain best in sector credit ratings so that we represent low-risk investment in the sector. Our long-term strategy continues to be to maintain our gearing at the level at which the Board considers we would be able to obtain access to the most efficient level of debt funding. Access to financial markets is key to the delivery of our strategy and we maintain close and open relationships with our bond investors.

DIALOGUE WITH GROUP TREASURER

The Treasury team ensures our investors are well informed through quarterly (from April 2021, six-monthly) Investor Reports, approved by the Board. The Board receives a report following meetings with Investors and, where appropriate, takes into account in its decision-making the views expressed by Investors on issues affecting the Company. Our Group Treasurer arranges to meet with Investors as required or when requested.

INVESTOR ENGAGEMENT AND ROADSHOWS

- During Covid-19 our annual Investor meeting has been via video conference. On 21 July 2021, Investors will be sent a 'voiced over' presentation and invited to ask questions via email.
- Roadshows were held in advance of the launch of our Bond issue on 31 March 2021. More details on the Bond issue are on page 62.

RELATIONS WITH OTHER KEY STAKEHOLDERS

Further information on how we engage with our key stakeholders is set out within the Strategic Report on pages 39 to 43.

CORPORATE GOVERNANCE REPORT

DIVISION OF RESPONSIBILITIES

HOW WE APPLY THE PRINCIPLES OF THE CODE

- Our Chair of the Board is responsible for leadership of the Board and ensuring its effectiveness – he demonstrates objective judgement and promotes a culture of openness and debate, which in turn facilitates constructive Board relations and ensures the effective contribution of each of our Directors
- Directors receive accurate, timely and clear information with the support of the Company Secretary, who also ensures that the Board has the resources it needs to function effectively and efficiently. Our Non-Executive Directors have access to the Company Secretary and (where required) external advisors to provide them with support and advice. Board and Committee meeting materials are provided five business days in advance
- There is an appropriate balance of Executive and Non-Executive Directors on the Board and a clear division of responsibilities between the running of the Board and the executive responsibility for the running of the Company's business. No one individual or group of individuals has unfettered powers of decision-making
- Our Non-Executive Directors allocate sufficient time to discharge their responsibilities effectively and they constructively challenge and help develop proposals on strategy
- The effectiveness of the Board is essential to ensuring the long-term success of the business and there is a clear division of responsibility between the strategic focus of the Board and the Executive responsibility for implementing strategy in the day-to-day running of the business. The Chief Executive Officer is responsible for leading the business and appointing the appropriate executive team to deliver the strategy, whilst the Non-Executive Directors constructively challenge the Executive team.

ROLES AND RESPONSIBILITIES

THE BOARD MEMBERS

All Board members are Directors of both the holding company Glas Cymru and the regulated operational company, Dŵr Cymru Cyfyngedig. The identical Board membership ensures a unified approach where the interests of the operational company are promoted as if Dŵr Cymru Cyfyngedig were a separate public listed company, in line with Ofwat's guidance on Board Leadership, Transparency and Governance.

The Board has collective responsibility for:

- setting the strategy, and ensuring the long-term success of the Group for the benefit of its customers and stakeholders;
- challenging, encouraging and monitoring performance of the Executive team against the strategic objectives;
- ensuring adequate financial and human resources to achieve the Group's objectives;
- overseeing and ensuring the Group's compliance with statutory and regulatory requirements;
- overseeing major capital investment projects; and
- setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.

DECISIONS AND MATTERS RESERVED FOR THE BOARD

The Board has adopted a formal schedule of Matters Reserved for the Board's consideration. This is monitored by the Company Secretary and reviewed by the Board on an annual basis.

The Board has delegated detailed consideration of certain responsibilities to Board Committees, while retaining overall responsibility for decision-making in these areas. There are regular meetings of the Audit, Nomination, Quality and Environment, Remuneration and Technology Committees. The Finance Committee meets or conducts business via email communications or by telephone on an as required basis. A description of the work of these Committees is set out on pages 100-101. All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee which is chaired by the Chair of the Board, and comprised of a majority of independent Non-Executive Directors. Appointments to the Committees are made on the recommendation of the Nomination Committee which reviews Committee membership annually, and are for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent. The Committees are constituted with written Terms of Reference that are reviewed annually to ensure that they remain appropriate and reflect any changes in best practice and governance.

These Terms of Reference and Matters Reserved for the Board are available on request from the Company Secretary and can also be found on the Company's website at **dwrcymru.com/boardterms**.

CHAIR OF THE BOARD

- is responsible for the leadership of the Board.
- sets the agenda for Board meetings.
- ensures the effectiveness of the Board and its Committees and good governance.

SENIOR INDEPENDENT DIRECTOR

- meets with other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chair.
- acts as an informal sounding-board for all members of the Board.

NON-EXECUTIVE DIRECTORS

- challenge the Executive Directors constructively and monitor the delivery of the Board's agreed strategy within the risk and control framework set by the Board.
- are involved in mentoring and supporting members of the Executive team and senior managers across the business.
- take an active interest in operational issues affecting the business (see page 108 for details of site visits undertaken by Non-Executive Directors during 2020-21).

CHIEF EXECUTIVE

- beyond matters reserved to the Board, the Chief Executive has primary responsibility for leading the management of the Company, with support from the Executive team.

EXECUTIVE TEAM

- has responsibility for implementing the strategy agreed by the Board and for the day-to-day management of the Business.

COMPANY SECRETARY

- supports the Chair of the Board in ensuring the Group demonstrates good governance.
- preparing agendas for Board Meetings which are agreed in consultation with the Chair of the Board and Chief Executive, although any member of the Board may request that an item should be added to the agenda.
- the Company Secretarial team is available to support all Non-Executive Directors and the Executive team and works to promote good information flows between the Board, Executive team and internal committees and management teams within the Group.

MEMBERS

As a Group owned by a company limited by guarantee, we do not have shareholders, but our Membership is made up of individuals drawn from across our supply area (or who have a strong connection with it) who carry out a vital governance role. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of our assets and for providing an essential public service in a manner which will be sustainable for future generations.

CORPORATE GOVERNANCE REPORT

DIVISION OF RESPONSIBILITIES

EXTERNAL APPOINTMENTS OF THE EXECUTIVE DIRECTORS

Peter Perry is Chair of Business in the Community Cymru and a Member of the Water UK Board. Mike Davis does not currently hold any external appointments.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2020-21

Twelve scheduled board meetings (including three additional meetings which addressed our response to Covid-19, insurance renewals, and a discussion on carbon reduction targets) took place during the year (2019-20: 13). The table below shows the actual number of scheduled meetings attended and the maximum number of scheduled meetings which the Directors could have attended. Every effort is made by each Director to attend all meetings.

Director	Board	QEC	Audit	Remuneration	Nomination	Finance	Technology
Peter Perry	11/12	6/6	6/6	4/4	3/3	1/1	4/4
Mike Davis	9/12	–	5/6	4/4	–	1/1	–
Chris Jones[1]	2/2	1/1	0/0	1/1	0/0	0/0	0/0
Alastair Lyons	12/12	6/6	–	4/4	3/3	1/1	4/4
Menna Richards[2]	4/4	2/2	–	2/2	1/1	–	–
Graham Edwards	10/12	6/6	6/6	–	3/3	–	–
Debra Bowen-Rees[3]	12/12	6/6	4/4	2/2	–	–	–
Tom Crick	12/12	6/6	–	–	–	–	4/4
Jane Hanson[4]	3/3	2/2	2/2	–	–	–	–
Joanne Kenrick[5]	12/12	–	6/6	4/4	2/2	–	4/4
Anna Walker[6]	4/4	–	2/2	2/2	–	–	–
John Warren	12/12	–	6/6	4/4	–	1/1	4/4

1. Stepped down as CEO on 31 March and retired from the business on 15 May 2020
2. Retired as a Non-Executive Director on 3 July 2020
3. Joined the Remuneration Committee and Audit Committee from September 2020
4. Appointed as a Non-Executive Director on 1 January 2021
5. Joined the Nomination Committee from July 2020
6. Retired as a Non-Executive Director on 3 July 2020

BOARD EFFECTIVENESS

The composition of the Board is reviewed annually by the Nomination Committee to confirm an appropriate diversity of background, skills expertise and experience, and as part of Director succession planning. The composition of the Board Committees was also reviewed and changes to current Membership proposed and approved. The Forward Schedule for future Board Meeting agendas is reviewed by the Board at each Board Meeting so that any members of the Board can suggest items for inclusion.

DIRECTORS' INDUCTION

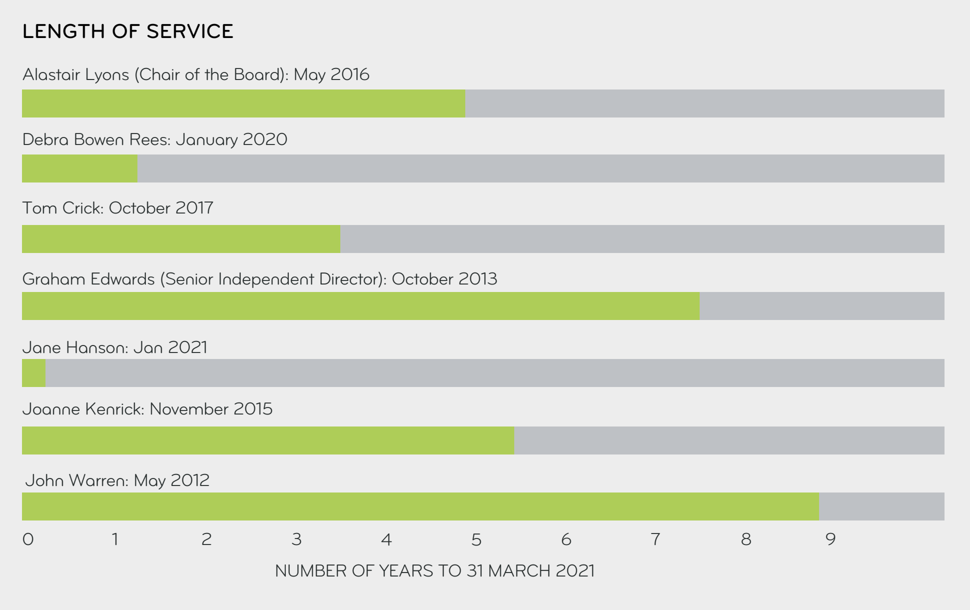
We follow a rigorous and transparent procedure for the appointment of new Directors to the Board. The induction process includes access to Board and Committee papers as appropriate, site visits and one-to-one meetings with other Non-Executive Directors, principal advisers to the Company, members of the Executive team and senior managers across the business. Where appropriate, new Non-Executive Directors also attend the Institute of Directors' course for new directors. Directors receive a tailored programme of induction on joining and ongoing educative and information programmes on topics relevant to the operation and governance of the business. During the year, an induction programme commenced for Jane Hanson who joined the Board on 1 January 2021.

NON-EXECUTIVE DIRECTORS – TERM AND RE-ELECTION

Non-Executive Directors are appointed for a three-year term which can be renewed for up to two further periods of three years. In any event, no Non-Executive Director can serve more than 10 years under the terms of our Articles. In addition, each Director formally seeks re-election every year by Glas Members at the AGM and any Director appointed during the year will seek election at the next AGM following his/her appointment.

John Warren, a Non-Executive Director and Audit Chair, is due to retire this year having completed just over nine years as a Director. He will step down at the conclusion of the AGM on 2 July 2021 and, accordingly, will not be offering himself for re-election as a Director.

Glas Members will be asked to approve the election of Jane Hanson as a Director of the Company at the AGM, being the first AGM following her appointment with effect from 1 January 2021.



INDEPENDENCE

We consider the independence of our Non-Executive Directors on an ongoing basis and formally on an annual basis. With the exception of the Chair of the Board, who was deemed to be independent at the time of his appointment, all of our Non-Executive Directors are deemed to be independent in accordance with the UK Corporate Governance Code and free from any relationship which would compromise their independent judgement.

Our constitutional documents do not specify a particular allocation of time required by Non-Executive Directors to be effective in their roles. However, the Nomination Committee reviews the extent to which Non-Executive Directors have the appropriate time to fulfil their role effectively and considers any new commitments that Non-Executive Directors propose to take on, alongside their existing roles.

CORPORATE GOVERNANCE REPORT

COMPOSITION, SUCCESSION AND EVALUATION

HOW WE APPLY THE PRINCIPLES OF THE CODE

- Glas Cymru has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board
- The Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The Board regularly reviews this in discussions with the Company Secretary, Nominations Committee and as part of its annual effectiveness review
- Directors receive a tailored programme of induction on joining and ongoing educative and informative programmes on topics relevant to the operation and governance of the business
- All Directors stand for re-election by Members at each Annual General Meeting
- Each Non-Executive Director holds office for an initial period of three years which may be extended for a further two periods.

BOARD EVALUATION

During 2020-21 we conducted an internal review, having had an external review carried out by Ian White in 2019-2020 in accordance with the Code requirement that companies should carry out an externally facilitated evaluation of the Board at least every three years.

BOARD EVALUATION CYCLE

The evaluation process involved all Board members and other regular Board attendees, completing an online questionnaire. Matters considered included: dynamics, behaviour and culture; the Board's decision-making and strategic approach; the process for Board Succession; content and format of Board papers and matters covered by the main Board and each Committee, together with individual feedback to the Chair and Committee Chairs on their particular roles.

The Board Directors discussed their responses to the questionnaire in one-to-one meetings with the Chair of the Board. The Board then met in March 2021 in two small informal groups to discuss the results of the review and discussed the specific recommendations that had been proposed to enhance the Board's effectiveness, together with an assessment of progress since the previous reviews and any material matters identified in the individual questionnaire results.

The Board agreed that good progress had been made in implementing the recommendations identified in the external evaluation carried out in 2020, which included suggestions in relation to:

- Additional opportunities for Board engagement with the workforce.
- Improvements to the content and format of papers and presentations.
- Reminding attendees who are not Directors that they can have an equal voice at Board meetings.

STAGE 1

Online questionnaire issued to Board Committee members

STAGE 2

Interviews conducted by the Chair of the Board with Directors and regular attendees

STAGE 3

A summary of the results of the questionnaire and interviews were given to the Chair of the Board and Chairs of the Committees

STAGE 4

Results are presented and discussed at Board and Committee meetings

STAGE 5

Actions for improvement are agreed for the next financial year

DEVELOPMENT: UNDERSTANDING THE OPERATIONAL BUSINESS

As part of the ongoing development of our Directors, the Company Secretary ensures that developments in legislation, corporate governance and reporting are brought to the attention of the Board and its Committees as appropriate. Regular attendance from our auditors, KPMG, at meetings of the Audit Committee means that Directors are kept up to date on current developments in governance.

Details of the operational site visits made by our Non-Executive Directors are set out on page 108. The Board also received "teach-ins" on relevant issues during the year, including on the impact of climate change and in relation to innovation opportunities.

KEY RECOMMENDATIONS IN THE 2020-21 BOARD EVALUATION

Recommendation	Agreed Actions 2021–22
The Board succession planning and number of Non-Executive Directors should be kept under review in the context of non-executive rotation and planned Board activity	To be reviewed at Nomination Committee meetings in May and November 2021
Diversity in its widest sense should continue to be actively promoted	Nomination Committee to seek to appoint a Director of BAME ethnicity by December 2025
The Board should seek to coordinate its strategy and measurement and reporting in relation to Environment, Social and Governance issues	The Board agreed to establish a new Environment, Social and Governance Committee to oversee and coordinate the delivery of public value, to be chaired by Debra Bowen Rees
The Board should ensure that consideration of the interests of stakeholders is fully reflected	Ensure that minutes explicitly demonstrate the consideration of stakeholder interests in reaching decisions
How most effectively to engage with Glas Cymru Members post pandemic should be reviewed	A plan will be developed to ensure regular and active communication with Members
The Board should identify ways to continue the direct engagement with customers that was developed during the preparation for PR19	Develop a plan for the Board to hear from representative groups of customers and third sector organisations representing customers
Continue the process of informal engagement with employees developed during the past year and return to physical meetings and site visits once Covid-19 restrictions allow	Quarterly meetings of at least two Non-Executive Directors with Employee Engagement Champions and other colleagues drawn from across the business. Continue regular meetings with a cross-section of managers
Consider how to make Board and Committee most productive	Matters Reserved for the Board and Committee Terms of Reference to be reviewed with the strategic focus of the Board in mind
Develop further the Company's risk management framework with particular regard to the definition of risk appetite and stress testing scenarios	The Board will consider risk management together with emerging and "Black Swan" risks at meetings in May and November 2021

Overall the review concluded that the Board continues to operate effectively. The dynamics of the Board are of a collegiate Board with a good balance of experience, who work well together and are keen to promote the success of the Company. The Board operates as an open and transparent forum for discussion and debate. Everyone has an opportunity to be heard and is encouraged to participate, which contributes to a positive and supportive culture. In addition, the Board has a good understanding of the matters on which it should focus and is in touch with its major stakeholders.

The Chair of the Board (Chair), taking into account the views of the other Directors, reviews the performance of the Chief Executive Officer. The performance of the Chair was reviewed by the Board led by the Senior Independent Director (SID) in March 2021. Following the latest review, the SID considered and discussed with the Chair the comments and feedback that had been received from the Directors as part of the Chair's evaluation questionnaire and was able to confirm that the performance of the Chair continues to be very effective and that he demonstrates appropriate commitment to his role and duties, providing excellent support to the Executive Directors and being available to Non-Executive Directors.

CORPORATE GOVERNANCE REPORT

COMPOSITION, SUCCESSION AND EVALUATION

NOMINATION COMMITTEE REPORT

ALASTAIR LYONS

CHAIR OF THE NOMINATION COMMITTEE

OTHER MEMBERS

- Graham Edwards
- Peter Perry
- Menna Richards (until July 2020)
- Joanne Kenrick (from August 2020)

Meetings held: 3

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

NOMINATION COMMITTEE FOCUS AREAS IN 2021-22

During 2021-22 the Committee will meet on at least two scheduled occasions (May and November).

Specific areas of focus will include:

- Board and Committee composition and succession planning;
- Continued focus on diversity and ensuring appropriate skills representation at the Board.

Others, such as the People and Workforce Director and external recruitment advisers, may be invited to attend for all or part of any meeting, at the invitation of the Chair. In the absence of the Chair, or when the Committee is dealing with the matter of succession to the role of Chair of the Board, the Senior Independent Director will chair the meeting. The Company Secretary acts as Secretary of the Committee.

PRINCIPAL RESPONSIBILITIES

The responsibilities of the Committee are to:

- ensure the composition of the Board and its committees is regularly reviewed in the context of director rotation, the Company's strategy and activities, its diversity objectives, and the Board's terms of reference;
- establish plans for orderly succession to positions on the Board and its Committees;
- ensure that there is a formal, rigorous and transparent procedure for appointments to the Board;
- lead the process for such appointments and make recommendations to the Board; and
- maintain oversight over the succession plans developed by the Chief Executive for the Executive Team.

Additionally, to work and liaise with other Board Committees, as appropriate, including the Remuneration Committee in respect of a remuneration package to be offered to any new appointee to the Board.

The Committee meets the Corporate Governance Code requirement for a majority of members of the Committee to be independent Non-Executive Directors.

Priorities	Activity of Committee	Outcome of Committee Activity
Governance	The Committee reviewed the agreed outcomes of the 2019-20 Board Effectiveness review, as pertinent to the Committee. The Committee conducted its annual review of: 1. the Committee's Terms of Reference; 2. Board Committee Memberships; and 3. the appropriateness of the directorships of all Group Companies.	The Committee implemented the process for recruiting a new Chair of the Audit Committee ahead of the planned retirement of John Warren at the AGM in July 2021, having served nine years on the Board. The Committee determined that no amendments were required to its Terms of Reference. The Committee made a recommendation to the Board to approve the appointment of the Group Treasurer as Alternate Director to the Chief Financial Officer on those subsidiary companies with a minimum of two Directors (subsequently approved by the Board).
Board Composition and Balance	The Committee considered the current make-up of the Board, and gaps in skills, background and experience alongside the succession plan for the Chair and Non-Executive Directors (see below). The Committee reviewed the ongoing independence (excluding the Chair of the Board for this purpose) and attendance record of all Non-Executive Directors. Following the Parker Review updated report published in February 2020, the Committee considered the appropriateness of a target for the appointment of a BAME candidate to the Board. The Committee reviewed the Board Diversity Policy at the same time as giving consideration to the Parker Review report.	The Committee determined that the Board had the right balance of skills, background and experience to support the Company's long-term strategy. See pages 102 to 104 for the diverse range of skills of our Non-Executive Directors. The Committee determined that all of the Non-Executive Directors remained independent and devoted enough time to fulfil their duties, continued to demonstrate commitment to the role, and contributed to the long term sustainable success of the Company. The Committee determined to recommend to the Board a target of one Board member from a BAME background to be appointed by December 2025. The Committee approved the amendment to the Board Diversity Policy to include the ethnicity target.
Succession Planning	The Committee reviewed succession plans for the Chair of the Board and Non-Executive Directors, considering the order of retirement of existing Board Members including the appointment of a successor to John Warren. The Committee reviewed the membership of Board Committees following the retirement of Menna Richards (Senior Independent Director) and Anna Walker from the Board with effect from the AGM in July 2020.	The Committee recommended the appointment of Graham Edwards as Senior Independent Director with effect from July 2020 to succeed Menna Richards and the appointment of a Jane Hanson as a Non-Executive Director and Chair Designate of the Audit Committee with effect from January 2021. Joanne Kenrick joined the Nomination Committee and took up the role of Remuneration Committee Chair in July 2020. Debra Bowen Rees joined the Audit Committee and Remuneration Committee in September 2020.
Committee Effectiveness	The Committee conducted an annual review of its effectiveness against its own Terms of Reference.	The Committee considered that it continued to operate effectively and within its Terms of Reference.

CORPORATE GOVERNANCE REPORT

COMPOSITION, SUCCESSION AND EVALUATION

NOMINATION COMMITTEE REPORT

BOARD APPOINTMENT PROCESS

The Committee leads the process for making appointments to the Board. The Committee is satisfied that the process illustrated below constitutes a formal, rigorous and transparent process for the appointment of new Directors to the Glas Board which supports the Committee's role in undertaking a full evaluation of the skills, knowledge and experience required on the Board as well as an orderly succession to positions on the Board having regard to meeting our diversity and inclusion objectives.

During the year this appointment process was followed in respect of the recruitment of Jane Hanson for which the Committee engaged with Odgers Berndtson's Cardiff and London offices. This firm has no other connection with the Company.

STAGE 1

The Committee develops a specification which identifies the required skills and experience for the role. In most instances external recruitment consultants are engaged to lead the recruitment process and identify suitable candidates

STAGE 2

Creation of a diverse long list of potential candidates by the consultants from which the committee selects a short list for interview

STAGE 3

Interviews with the shortlisted candidates (selected by the Committee from an initial long list of candidates) are held with the Chair of the Board and the members of the Committee

STAGE 4

After consideration by the Committee, a recommendation is made to the Board to appoint the preferred candidate

HOW THIS SUPPORTS A DIVERSE PIPELINE

In accordance with the Board's diversity policy, in identifying suitable candidates for appointment to the Board, the Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. We only work with recruitment consultants who commit to putting forward a truly diverse long list of candidates for review by the Nomination Committee

SUCCESSION PLANNING

The Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. It maintains oversight over the succession plans developed by the Chief Executive for the Executive team.

As part of the annual effectiveness review of the Board and Board Committees, the Board will consider the balance of skills, experience, independence and diversity representation as reviewed by the Committee.

The aim of the Board is to maintain or improve the current level of diversity with regard to skills, experience, background, race, gender and personal attributes.

The Committee reports on its progress in maintaining or improving the diversity of the Board and on our gender diversity ratios in its annual report within the Corporate Governance section of the Annual Report and Accounts. It also reports on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are truly representative of the communities that we serve. The approach to diversity in senior management roles is governed in greater detail, through the Glas Cymru Group's policies which support equality and diversity.

In the opinion of the Committee, the Board currently benefits from an appropriately diverse range of skills and experience in our Non-Executive Directors. In addition to chairing or being a member of a Committee of the Board, each Non-Executive Director commits additional time to the Company, providing support in areas relevant to their particular interests and specialist knowledge. The Directors' Biographies set out on pages 102 to 104 include details of their background, skills and experience, which for the Board taken as a whole, are diverse and wide-ranging.

Following the External Board evaluation, the Committee and Board are satisfied that the Board has the right balance of skills, experience, independence and knowledge of the Company and that the individual Board members spend an appropriate amount of time in the fulfilment of their duties, continue to demonstrate commitment to the role, and contribute to the Company's long-term sustainable success.

DIVERSITY

At the financial year end, 33% of our Board and 31% of our Executive team are women, while in the wider workforce, of those senior managers reporting directly to a member of the Executive team, 39% (2020: 36%) are women.

We continue to support the recommendations proposed by the Hampton-Alexander Review which encouraged companies to increase the percentage of women on boards and leadership teams (comprising the executive committee and direct reports to members of the executive committee) to 33% by the end of 2020. We are encouraged that we have been able to meet this target and will continue our focus on maintaining this. We also support the recommendations proposed by the Parker Review which encourages companies to increase the ethnicity on boards and, during the year, the Committee set a target to appoint one Board member from a BAME background by 2025.

We are not complacent in the areas where we know we can improve our diversity and inclusion. The Company is committed to providing equal opportunities, eliminating discrimination, and encouraging diversity amongst its workforce. Our Board Diversity statement is published on our website at **dwrcymru.com/boarddiversitystatement** and the Our Responsibilities section (page 88) details our plan to continue to improve the diversity of our Board and our workforce to ensure that the individuals working for us are truly representative of the communities that we serve.

Alastair Lyons
Chair of the Nomination Committee

3 June 2021

CORPORATE GOVERNANCE REPORT

AUDIT, RISK AND INTERNAL CONTROL

AUDIT COMMITTEE REPORT

JOHN WARREN

CHAIR OF THE AUDIT COMMITTEE

OTHER MEMBERS

- Debra Bowen Rees (from September 2020)
- Graham Edwards
- Joanne Kenrick
- Jane Hanson (from January 2021)
- Anna Walker (until July 2020)

*John Warren retires at the AGM and will be succeeded by Jane Hanson

Meetings held: 6

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

HOW WE APPLY THE PRINCIPLES OF THE CODE

The Board, in conjunction with the work of the Audit Committee, whose report is below:

- has formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors;
- ensures that the Annual Report and Accounts present a fair, balanced and understandable assessment of the Company's position and prospects;
- determines the appropriate risk appetite in achieving our strategic objectives, while ensuring sound systems of internal control and risk management; and
- maintains oversight of the framework of internal control and risk management and ensures that the Company has the necessary financial resources and human resources to function effectively.

The Audit Committee is chaired by John Warren, formerly Finance Director for WHSmith plc and United Biscuits (Holdings) plc and currently also Chair of the Audit Committee at Bloomsbury Publishing Plc. He is considered by the Board to have recent and relevant financial experience. All Members of the Committee are independent Non-Executive Directors and the Board is satisfied that the Committee as a whole has sufficient sectoral experience and experience of financial matters.

Other regular attendees at meetings of the Audit Committee include the Chief Executive Officer, the Chief Financial Officer, the Director of Finance, the Head of Business Assurance (Internal Audit), the Company Secretary and representatives from the Group's External Auditors, KPMG LLP.

The Deputy Company Secretary acts as Secretary to the Committee.

PRINCIPAL RESPONSIBILITIES

The Board has delegated responsibility to the Committee to oversee:

- the integrity of the Group's financial statements including ensuring that we provide clear, complete, fair, balanced and understandable financial reports to all our stakeholders;
- the appropriateness and effectiveness of our internal control systems, including those concerning Public Interest disclosures (whistleblowing); and
- the effectiveness, performance, objectivity and independence of the internal and external Auditors.

Priorities	Activity of Committee	Outcome of Committee Activity
Governance	The Committee received and reviewed the Company's key regulatory submissions and assurance processes relating to: • the Annual Performance Report (APR), and draft Assurance Reports from Jacobs and KPMG. At the same time the Committee received the Company's annual Risk and Compliance Statement (and associated Ring-Fencing Certificate), and draft Assurance Report from Jacobs, together with the Internal Controls paper from the Executive; team and • the publication of our Charging Schemes for 2021-22. The Committee considered and approved certain policies and procedures. These included Whistleblowing and related policies in relation to conduct, Treasury and Taxation policies, Supplier Payment Terms and the Internal Audit Charter. The Committee received an update from the Company Secretary on the Company's compliance with the 2018 UK Corporate Governance Code (the "Code") and Ofwat's Board Leadership, Transparency and Governance Principles. It also reviewed a draft of the proposed structure for the 2020-21 Annual Report and Accounts. The Committee reviewed its Terms of Reference and effectiveness as part of the detailed external Board evaluation conducted during the year. The Committee received regular updates on key compliance areas including our vehicle operator licence, data protection, information and security, business continuity planning, taxation and insurance arrangements. The Committee considered Audit Re-tender Plans and Audit Partner Rotation.	The Committee provided feedback to the Board on the assurance processes followed for the 2019-20 APR, together with the updates from Jacobs and KPMG, in advance of the Board's formal approval of the APR prior to publication in July 2020. The Committee applied a similar process in reviewing the assurance process that underpinned the Board's approval of the Company's Charging Schemes for 2021-22 in December 2020. The Committee gave its recommendation to the Board to approve these policies as set out in the Board's terms of reference. The Committee noted the progress in compliance with Provision 41 – in relation to employee engagement on the subject of alignment of Executive remuneration with performance, which the Company had previously noted in the Annual Report and Accounts 2020, it had not complied with during 2019-20. It also confirmed that the Company was complying with Ofwat's Principles. The Committee agreed some amendments to its Terms of Reference for approval by the Board. The Committee's review of its performance concluded that the Committee was working well and continued to perform effectively. An example of such an update was an introduction from the newly-appointed Chief Technology Officer following his initial review of the Company's information and operational technology systems and resilience against a cyber attack. For more details in this area, refer to Report of the Technology Committee on page 128. See separate update overleaf.
Going Concern and Viability Statement	The Committee reviewed updates from External Auditors in relation to increased going concern considerations as a consequence of Covid-19 alongside the Committee's review of the Company's long term viability assessment for inclusion in the Annual Report and Accounts.	The Committee provided its report to the Board in relation to its review of the Company's going concern statement and long term viability assessment in the Annual Report and Accounts and recommended these as appropriate.

CORPORATE GOVERNANCE REPORT

AUDIT, RISK AND INTERNAL CONTROL

Priorities	Activity of Committee	Outcome of Committee Activity
Financial Performance	The Committee reviewed financial performance in detail at the half year and year end (financial statements) and received regular reports from the Group's external auditors, KPMG LLP and the Company's Group Financial Controller in relation to accounting treatments. The Committee reviewed the Company's draft Bond issuance Prospectus in March 2021 and quarterly Investor Reports during the year. The Committee also reviewed and approved delegated authority to implement plans in relation to LIBOR reform which comes into effect from January 2022.	The Committee recommended that the financial statements be approved by the Board. It also confirmed, in respect of the 2019-20 Annual Report and Accounts, that it was fair, balanced and understandable. The Committee gave recommendations to the Board to approve the updated Prospectus and the quarterly (from 1 April 2021: six monthly) Investor Reports, subject to the Committee and Board's final comments.
Internal Control and Risk Management Systems	The Committee maintained oversight of the operation of the Company's systems of internal controls and assurance. The Committee received reports from the Head of Business Assurance on the outcomes of internal audit investigations and whistleblower investigations. The Committee received and reviewed Risk Reports made available to the Committee and Board and in particular those financial, data, and information systems risks pertinent to the remit of the Committee.	In addition to reviewing the findings of internal audits conducted during the year, the Committee received a detailed assurance report from the Executive on the internal controls and risk management process in place and any recommended changes thereto. The Committee critically reviewed the responses from management on internal audit investigations and closely monitored the status of overdue management actions. Where appropriate, management attended Audit Committee Meetings to present their response to an internal audit and, if deemed necessary, subsequent updates were agreed. An example of this is the six-month update of the fraud controls under our Capital Delivery Programme due to the nature and size of the Programme. Whistleblowing incidents were reviewed during private meetings held immediately after each Committee meeting. The Committee critically reviewed the strategic risks related to Information Security, Cyber and IT System Loss, Finance (funding), and the Impact of a Severe Recession (Covid-19 and Brexit).

AUDIT COMMITTEE FOCUS AREAS IN 2021-22

John Warren will retire as a Non-Executive Director and as Audit Committee Chair at the AGM in July 2021, having served nine years on the Board. John will hand over the responsibility of Audit Committee Chair to Jane Hanson. Jane has a strong background in financial, corporate governance, audit and risk management and has recent and relevant financial experience. Her biographical details are set out on page 104.

A key area of focus for the Committee during 2021-22 will be to commence the planned Audit re-tender process in the final quarter of the financial year, by which time the new Chair of the Committee will have had the opportunity to work with our existing External Auditors for a sustainable period and to agree the scope and the Committee's requirements of our External Auditors before leading the re-tender process. Further details on the Audit re-tender are set out below.

At the Committee's meeting on 20 May 2021, a summary of the UK Government's White Paper on Restoring Trust in Audit and Corporate Governance, published on 18 March 2021, which proposed reforms to audit, auditors, internal controls and corporate reporting, was considered. While we are not a Company with shares publicly listed on a stock exchange, we do have a Public Interest Entity (PIE) in our Group and, therefore, will be complying with the new requirements as will be overseen by the Audit, Reporting and Governance Authority (ARGA). Developments in our corporate governance frameworks following this White Paper will be another key focus area for the Audit Committee and will be monitored during 2021-22.

The Committee also plans to review Strategic Risk Reporting at the Board level and the processes for considering key risks at all levels of the business, taking into account lessons learned from the pandemic responses, other operational activity and improvements in business continuity planning during 2021-22.

FINANCIAL REPORT AND SIGNIFICANT ESTIMATES AND JUDGEMENTS

During 2020–21 the Committee considered the following specific issues in relation to financial reporting of the interim and year-end results:

Key judgements and estimates	Audit Committee Review	Conclusions
Provision for impairment of receivables	The approach to setting the bad debt charge was reviewed in detail.	Having assessed the impact of Covid-19, the Committee concluded that the current bad debt provision was appropriate.
Classification of costs	Classification between operating expenditure and capital expenditure was reviewed.	Classification of costs between operating expenditure and capital expenditure was reviewed and considered to be appropriate.
Accuracy of the defined benefit pension liabilities assumptions	The assumptions in relation to the discount and inflation rates that applied to the pension valuation.	The Committee's review of the assumptions in relation to the discount and inflation rates that applied to the pension valuation, concluded that overall these were within the range of acceptable assumptions.

> THE ABOVE MATTERS ARE DISCUSSED IN MORE DETAIL IN THE AUDITOR'S REPORT ON PAGE 154

CORPORATE GOVERNANCE REPORT

AUDIT, RISK AND INTERNAL CONTROL

OTHER ACTIVITIES DURING THE YEAR

The Committee met on six occasions during the year, and following the financial year ended 31 March 2021, the Committee met on a further two occasions as in previous years.

FAIR, BALANCED, UNDERSTANDABLE

The Committee critically reviewed a draft of the Annual Report for 2020–21 in order to ensure that it presented a "fair, balanced and understandable" assessment of the Company's financial status, in accordance with the UK Corporate Governance Code.

VIABILITY STATEMENT

The Board has assessed the prospects of the Company over a period of at least 12 months as required by the 'Going Concern' statement on page 65. The Board also considered the financial viability of the Group over the next nine years, which it has deemed to be the most appropriate period over which to make this assessment, taking into account our current and next five-yearly regulatory price review period to 31 March 2030. The Group's 2021 Long-Term Viability Statement is set out on page 74.

EXTERNAL AUDIT

The Committee is supported by the External Auditors, KPMG LLP. KPMG presented their audit plan for the 2020–21 financial year to the Committee at the November meeting and have reported on progress against it at subsequent meetings of the Committee. This set out specific areas which continued to impact the audit as a result of the Covid-19 pandemic included a change in scope in response to new and increased risks of material misstatement and anticipated challenges in conducting certain aspects of the audit, and in the assessment of going concern, given the rapidly changing environment and uncertainty about future economic conditions. The audit plan also highlighted changes in governance and accounting and tax regulation that will impact on financial reporting.

The Committee assesses the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year. It reviews the External Auditor's independence policy, which is included in its half-yearly report to the Committee. This sets out the procedures by which the Committee satisfies itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work.

AUDIT TENDER/AUDIT PARTNER ROTATION

The Group last completed an audit tender in 2015 for the 2015–16 financial year end when, following the completion of a transparent and independent audit tender process, KPMG LLP were recommended to Members as the Group's auditor at the AGM

in July 2016 and a resolution passed to that effect. At the time of appointment, the term of the contract with KPMG was for a period of up to five years which was due to come to an end in Autumn 2020. The timing also coincided with the rotation of our existing External Audit Partner, James Ledward. While the Committee had agreed a plan to tender for external audit services during the 2020-21 financial year, it considered the guidance issued by the Financial Reporting Council (FRC) on 26 March 2020 in relation to the Covid-19 situation, and decided to defer this plan until 2021-22. With KPMG's agreement, KPMG's contract has been extended for a further year. James Ledward and KPMG have agreed that James will continue as our External Audit Partner and not rotate at the end of the 2020–21 financial year as generally required after a period of five years. This decision was also in line with the FRC guidance relating to Covid-19.

In the light of the ongoing pandemic and the change in Audit Chair effective from the AGM in July 2021, the Committee reviewed a proposal to extend the audit re-tender for a further year until the end of 31 March 2022 statutory audit and for James Ledward to continue as Audit Partner for the same period. This proposal was agreed by the Committee in February 2021, and it was also resolved to discuss the implementation of the process to tender at the November 2021 meeting of the Committee.

NON-AUDIT SERVICES AND FEES

The Group's policy is that the External Auditors will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy. All non-audit fees paid to External Auditors must be approved by the Committee in advance (or in the event this is not possible, approved by the Committee Chair and Chief Executive Officer then reported to the Committee at the next meeting); and, to comply with the FRC's revisions to the Code, a cap on fees for non-audit work across the Group has been agreed. In any one financial year a 70% cap of the three-year average statutory external audit fee for the whole group was applicable from the financial year starting 1 April 2020. During the period 2020–21, audit fees for the Group's financial statements totalled £302,000 (2020: £295,000), fees for other audit-related assurance services were £82,000 (2020: £91,000) and fees for other non-audit related services amounted to £38,000 (2020: £139,000). As a result, non-audit fees accounted for 15.9% of the average of the last three years' audit fees, which is well within the limit. For further details on the non-audit services provided by KPMG, see note 3 to the Financial Statements on page 180.

INTERNAL AUDIT

The Head of Business Assurance (internal audit) presented his proposed internal audit plan for financial year 2021–22 at the February 2021 meeting of the Committee and has reported regularly on progress against the 2020-21 plan and, in detail, on any audit reports with a less than "satisfactory" outcome. Management responses to unsatisfactory and limited-satisfaction audits are discussed by the Committee and subsequently kept under review to ensure progress is made to remedy control weaknesses. Where there are unsatisfactory audit outcomes, the business area is reviewed again by Business Assurance once the remedial action has been completed.

The effectiveness of the internal audit function is monitored regularly using a variety of inputs including the Committee's review of the audit reports produced, the Committee's interaction with the Head of Business Assurance, and updates at each meeting on progress against the internal audit plan, which includes the quality audits undertaken and reported on at meetings of the Quality and Environment Committee.

WHISTLEBLOWING

The Head of Business Assurance also presents a Whistleblowing Report to the Committee in a private meeting (attended by members of the Committee, the CEO, the CFO and representatives from internal audit and the Company Secretary only) at the end of every meeting, which includes details of any new public interest disclosures made or referred to the Internal Audit function, and the outcomes, and "lessons learned" from the investigation of such allegations.

INTERNAL CONTROL AND RISK MANAGEMENT

The Committee received regular reports on systems of internal control and risk management (as detailed in the table above) and on the progress of programmes to improve compliance and internal controls across the business.

John Warren
Chair of the Audit Committee

3 June 2021

CORPORATE GOVERNANCE REPORT

AUDIT, RISK AND INTERNAL CONTROL

QUALITY AND ENVIRONMENT COMMITTEE

Graham Edwards

CHAIR OF THE QUALITY AND ENVIRONMENT COMMITTEE

OTHER MEMBERS
- Debra Bowen Rees
- Tom Crick
- Jane Hanson (from January 2021)
- Menna Richards (until July 2020)
- Alastair Lyons
- Peter Perry

INDEPENDENT CONSULTANTS
- Steve Brown (Expertise in the Environment and Wastewater performance)
- Julian Dennis (Expertise in Water and Public Health)

Meetings held: 6

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

By invitation of the Committee Chair, others such as the Managing Directors of Water and Wastewater, Director of Water, Head of Quality Policy and Compliance, the Director of Environment, the Health and Safety Director, and the Chief Financial Officer and the Legal and Compliance Director, may be invited to attend for all or part of any meeting. The Assistant Company Secretary acts as Secretary to the Committee.

PRINCIPAL RESPONSIBILITIES

On behalf of the Board the Committee monitors the operational performance of the Company on a quarterly basis and provides oversight of the management and mitigation of risks to the business arising from operational, environmental and health and safety-related issues.

The Committee also:

- reviews Dŵr Cymru's water and wastewater operational performance and assesses the appropriateness of improvement strategies;
- assesses annual reports, including but not limited to, the Annual Dam Safety Report and the Annual Health and Safety Report, and recommends these to the Board for approval;
- reviews and influences the health and safety management plan and monitors its delivery;
- ensures that Welsh Water fulfils its public health responsibilities and that the provision of safe, clean drinking water and wastewater sanitation is in line with all relevant standards;
- ensures the Company has adequate emergency and security arrangements in place in line with relevant statutory guidance such as Critical National Infrastructure (CNI), Protective Security Strategy and Security and Emergency Measures Directive (SEMD) requirements;
- reviews and agrees the Company's operational systems and quality assurance audit programme and receives the findings of audit reports relating to water and wastewater service provision;
- reviews the findings of investigations into any water quality, environmental, safety or customer service failure. Serious Incident Reviews are led by the Chief Executive Officer of Welsh Water, who meets with the relevant Managing Director of Water/Wastewater or the Director of Capital Delivery, as appropriate, to conduct the review and then provides detailed reports on the identified root cause(s), any wider implications of the incident and the action plans to address any ongoing issues; and
- constructively challenges the Executive team to ensure continuous improvement in operational performance.

ACTIVITIES DURING THE YEAR

During 2020-21 the Committee's activities have included reviewing:

- quarterly and Annual Health and Safety reports;
- performance reports for Water and Wastewater Services, with reports submitted on quality standard failures, and compliance with internal processes, together with improvement plans for these areas;
- relevant strategic risk reports and mitigation plans;
- strategies for key areas of business focus such as the Lead Pipe Replacement programme, Pollution Prevention Strategy, Customer Acceptability of Water Strategy (to reduce odour and discolouration issues), and Cryptosporidium Prevention Strategy;
- the Annual Dam Safety Report and review of Portfolio Risk Assessment outcomes for reservoir dams and ongoing maintenance work being undertaken by the Capital Projects team;

- updates on the work of the Company's Independent Environmental Advisory Panel; and
- its terms of reference and effectiveness as part of the internal board evaluation conducted during the year. That review concluded that the Committee was working well and continued to perform effectively.

Priorities	Activity of Committee	Outcome of Committee Activity
Closely monitoring Health and Safety, especially with the impact of the pandemic and changes to our work practices.	Annual and quarterly Health and Safety Reports presented by the Director of Health and Safety. Review any serious Health and Safety incidents, near miss or potential risks. The following near misses were reviewed during the year: • Trunk main burst while adding new section of main, causing flooding which could have resulted in loss of supply. • Transformer fire at a treatment works.	Reviewed and constructively challenged the reports, including actions taken to ensure continued safety of the workforce during the pandemic restrictions. A range of improvement actions have been identified that can be applied to other schemes. Review of other sites found these transformers were not present elsewhere. Actions put in place at the one site.
Hearing directly from our key regulators on their priority areas for the Company.	Received presentations on our performance from the Chief Inspector of the DWI and Directors from NRW.	These are positive opportunities to engage with key regulators. We received feedback on our performance and areas for improvement.
Reviewing in detail the Company's response to severe weather events.	The Committee reviewed root causes of the flooding to customer properties which occurred during a storm event in Newport in December 2020, and considered the appropriateness of the short-term mitigation plan.	Mitigation plans were agreed by the Committee.
Monitoring operational performance against key performance indicators for drinking water and environmental standards.	At every meeting the Committee receives management reports from the: • Managing Director of Water Services, Asset Planning and Capital Delivery; • Managing Director of Wastewater Services, Business Customers and Energy; • Director of Water Services; and • Regulatory correspondence updates from the Head of Quality Policy & Compliance.	Reviewed and constructively challenged the reports. Agreed KPI reporting dashboards for areas of improvement identified by the Committee.
Continued oversight of the "pipes in dams" capital projects at a number of our reservoir locations.	Annual report for Dam Safety, including a review of the "pipes in dams" project.	The 'pipes in dams' project is progressing well. The Committee recommended the annual report for Dam Safety to the Board for approval, which was subsequently approved.

Graham Edwards
Chair of the Quality and Environment Committee

3 June 2021

CORPORATE GOVERNANCE REPORT

AUDIT, RISK AND INTERNAL CONTROL

TECHNOLOGY COMMITTEE

TOM CRICK

CHAIR OF THE TECHNOLOGY COMMITTEE

OTHER MEMBERS

- Joanne Kenrick
- Alastair Lyons
- Rob Norris, Chief Technology Officer (CTO)
- Peter Perry
- John Warren

The Managing Director of Water, Asset Planning and Capital Delivery attends all meetings of the Committee. The Deputy Company Secretary acts as Secretary to the Committee.

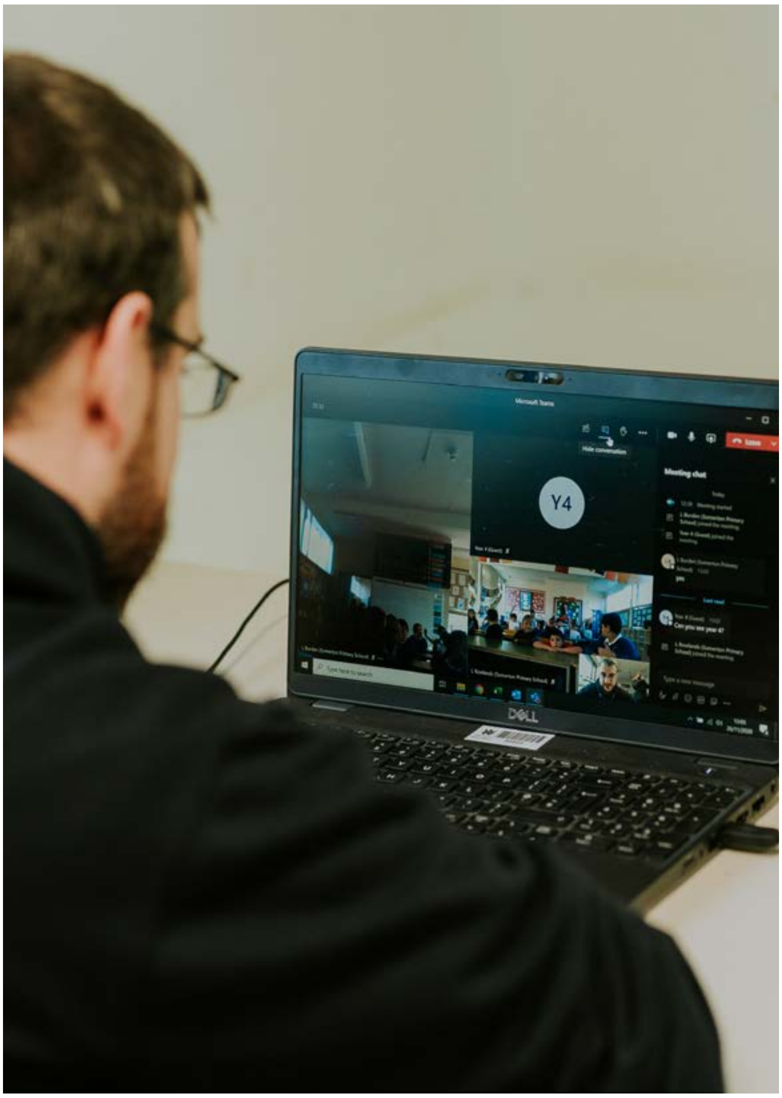
Other attendees: The other Managing Directors of the business, the Head of Data, the Head of Information Security or other senior managers and advisors to the Committee may attend all or part of any meeting by invitation of the Committee Chair.

Meetings held: 4

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

PRINCIPAL RESPONSIBILITIES

To ensure that the Group's information technology (IT), operational technology (OT) and information security provision is subject to appropriate scrutiny and oversight. This supports the achievement of the Group's medium-term business objectives in the most efficient manner and in accordance with the Group's identified risk appetite. This includes reviewing and tracking progress of the Group's obligations under the Network and Infrastructure Systems (NIS) Regulations 2018. In this context, technology refers to software, systems, infrastructure, processes and methodologies used to provide effective and innovative digital and data-driven solutions across the Group, whilst security refers to the security infrastructure process and procedures used to provide protection to Glas Cymru's IT and OT assets.



Priorities	Activity of Committee	Outcome of Committee Activity
IT Strategy	The Committee received the findings of the new CTO's review of the Group's technology strategy and 2020-21 business plan. Strategic updates which focused on: • the AMP7 Plan and the alignment to the technology strategy and IT investment plan • proposed new delivery model, including the roles of our key partners and in-house team • the Company's journey to the Cloud.	The Committee considered the CTO's initial review of current strategy, the technology landscape, and team/partner capability, set against the AMP7 delivery plan, and subsequent recommendations, as supported by the Executive team, to ensure that technology enables key business objectives for the AMP7 investment period and beyond.
Information and Cyber Security	Further to the CTO's initial review of information security risks, the Committee received: • the outputs of the review, together with remediation plans, recommended revised Security Target Operating Model and revised funding to support our information security programme • updates on key information security risks, including a KPI dashboard and risk appetite proposal for discussion at Board.	The Committee reviewed and approved the recommendations to progress the AMP7 Information Security plan, including: Security Target Operating Model – together with additional resources needed, to deliver a more secure service. Security Governance – by establishing a new group to review all security projects at a working level. Any issues or concerns from this review will then be brought to the existing Information Security Steering Group's (ISSG) attention, with ISSG being chaired by the Chief Information Security Officer (CISO) who would be responsible for all information security across Welsh Water. Revised ISSG terms of reference and information security risk management process which had been approved by the Executive team.
Operational Technology (OT)	The Committee received a review of OT security measures and, subsequently, in light of the information concerning security issues affecting third parties and the wider sector. It received a progress update on our compliance with the Drinking Water Inspectorate's (DWI) Network and Information Systems (NIS) Regulations 2018, following the DWI's assessment of the submission of our Cyber Assessment Framework (CAF) response in September 2020.	Security Culture – recognising that cyber security risk is not just an Executive or Board-level concern or just the responsibility of the Infosec team, but that every employee should have an awareness of Security risk and how this may impact their role. Over the AMP7 period this would include raising the profile of the Cyber Security threat right across the business, in the same way employees are aware of Health & Safety concerns. It was recommended that a "Secure Thinking" programme is put in place across the organisation supported by both the HR and Communication teams. The Committee noted that the DWI assessment had concluded that we were making good progress under the NIS Regulations and that further updates would be brought back to the Committee.
Governance	The Committee reviewed, with input from the CTO and Chief Information Security Officer (CISO): • terms of reference • forward schedule of agenda items for 2020-21 The Committee also reviewed its effectiveness as part of the detailed external Board evaluation conducted during the year.	The Committee's terms of reference were updated to reflect oversight of the Company's OT, cyber and Cloud provision. The 2020-21 Forward Schedule was approved by the Committee. The Committee's review of its performance concluded that the Committee's remit, since it was first established in 2018-19 to oversee the Company's digital strategy, had evolved to ensure appropriate and effective oversight of the Group's IT, OT and information security provision, and that it had made good progress during the 2020-21 year.

The Committee noted excellent progress and acknowledged the impact of the CTO, who joined during 2020, in helping to identify and address the key challenges facing the successful implementation of the Company's Digital Strategy. We also reiterated a clear focus on the importance of cyber resilience for the Company and sector as a whole.

Tom Crick
Chair of the Technology Committee

3 June 2021

DIRECTORS' REMUNERATION REPORT

REMUNERATION

INTRODUCTION

JOANNE KENRICK

CHAIR OF THE REMUNERATION COMMITTEE

OTHER MEMBERS

- Anna Walker (Chair and member of the Committee to 3 July 2020)
- Debra Bowen Rees (from September 2020)
- Alastair Lyons
- John Warren

By invitation of the Committee Chair, other individuals such as the Chief Executive Officer, the People Director, and other senior managers or external advisers may attend for all or part of any meeting, as and when appropriate.

The Company Secretary acts as Secretary of the Committee.

The Committee Chair had been a member of the Committee for nine months prior to being appointed Committee Chair and has relevant experience as Chair of a Remuneration Committee for another company since 2018.

Meetings held: 4

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

PRINCIPAL RESPONSIBILITIES

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

The Committee's remit is set out in detail in its terms of reference which are available at **dwrcymru.com/termsofreference**

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

SECTION 1: REMUNERATION COMMITTEE CHAIR'S STATEMENT

Dear Glas Members

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

STRUCTURE OF THIS REPORT

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

This Report is split into six sections:

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

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

BUSINESS AND EMPLOYEE CONTEXT

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

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

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

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

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

DIRECTORS' REMUNERATION REPORT

REMUNERATION

REMUNERATION COMMITTEE FOCUS AREAS IN 2020-21

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

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

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

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

The Committee reviewed these outcomes in the context of the performance delivered for customers and the wider societal context, and sought advice and input from Deloitte LLP as consultants to the Committee, to ensure that the broader impact of Covid-19 across the business was taken into account and that appropriate decisions were made in that context. The Company's response to the pandemic had impacted the Totex performance under the LTVPS by incurring exceptional costs which were not anticipated when the original targets were set. The Committee determined that these costs should be excluded from the performance calculation in line with our previous practice of adjusting for exceptional items to ensure that we are measuring performance on a like-for-like basis. Other performance development targets were impacted by the pandemic, notably our Community Education and Recreational Facility visit targets, however the Committee did not make any adjustments to these measures.

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

REMUNERATION COMMITTEE FOCUS AREAS IN 2021-22

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

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

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

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

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

Joanne Kenrick
Chair of the Remuneration
Committee

3 June 2021

SECTION 2: THE ALIGNMENT OF PAY AND PERFORMANCE, REMUNERATION PRINCIPLES AND OFWAT GUIDANCE

In December 2019, Glas Members approved an amendment to our Articles of Association to set out clearly our purpose, which we have been committed to delivering since 2001 when Glas Cymru acquired the business of Welsh Water. Our purpose, which is set out on page 6, has informed the development of our Remuneration Principles, as set out below.

THE REMUNERATION PRINCIPLES

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

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

DIRECTORS' REMUNERATION REPORT

REMUNERATION

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

Clarity	The Committee is committed to being open and transparent with pay and we seek to do this through our high level of disclosure and clear reporting. In taking its decisions, the Committee follows the Objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance, and the requirements of the FRC's UK Corporate Governance Code (the Code).
Simplicity	We aim to make our remuneration structure clear to all participants so that all those affected by it understand it and its purpose. Where possible, our remuneration arrangements are in line with UK best practice and are well understood by participants.
Risk	The Committee has discretion to adjust AVPS and LTVPS outcomes if it considers these inconsistent with overall Company performance, taking into account any relevant factors. Malus and clawback provisions apply for both the AVPS and LTVPS.
Predictability	Maximum opportunities for AVPS and LTVPS are set out in the policy, with actual outcomes depending on the level of performance achieved against specific measures. Actual incentive outcomes are set out in the Remuneration Report each year.
Proportionality	Our policy has been designed to strike a balance between long-term and short-term measures, linked to the Company's strategic plan. A significant proportion of our remuneration arrangements for executive directors is tied to the achievement of stretching performance conditions to ensure individuals are rewarded fairly for success. When benchmarking Director pay we choose to apply a 15% discount to remuneration in order to reflect our not-for-shareholder structure.
Alignment to culture	The use of the same key measures for all variable pay schemes ensures transparency and a sense of shared ownership of the targets – the annual award of every colleague is affected/impacted by the same key targets, to a greater or lesser degree.

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

STRATEGIC ALIGNMENT OF PAY

In setting Remuneration policies, the Committee is focused on the need to attract and retain individuals who can meet the short and long-term challenges that the Group faces.

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

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

LINKING PAY TO PERFORMANCE AND THE CUSTOMER

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

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

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

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

ROLE OF GLAS MEMBERS

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

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

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

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

ENGAGEMENT WITH EMPLOYEES AND OTHER STAKEHOLDERS

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

See page 39 for other examples of Board engagement. Site visits are detailed on page 108.

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

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

DIRECTORS' REMUNERATION REPORT

REMUNERATION

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

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

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
BASE SALARY	To help attract, retain and motivate high-calibre employees.	Normally reviewed annually and any increases applied with effect from 1 April. Review reflects: • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector.	Annual inflationary increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above or below this level where appropriate.	Annual Performance Reviews.
BENEFITS	To provide a market-competitive benefits package to help attract and retain employees. Healthcare benefits also promote business continuity.	Directors are eligible for private health cover. The Chief Executive has a historic entitlement to permanent health insurance. Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate.	Value of benefits is based on the cost to the Company and is not predetermined.	None
PENSION	To help attract and retain high-calibre employees.	From 1 April 2020, all employees, including Executive Directors, will be entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance of 9.7%. Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme which Peter Perry participates in. Life assurance at 4x base salary is provided for Executive Directors and all employees who participate in the DCWW Group Personal Pension Plan or Pension Cash Alternative Plan.	The cash allowance is equivalent to the employer contribution of 11% less employer NI contribution.	None

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
AVPS	To incentivise the annual delivery of stretching targets and delivery of strategic goals.	AVPS targets reviewed annually by the Committee. Performance is measured against threshold, target and maximum levels. Outturn against targets is determined by the Remuneration Committee after the year end based on performance against targets. • Paid as cash • Not pensionable • Clawback provisions apply in the following circumstances: – Material misstatement or a calculation error in assessing any Group member company's financial results – Material failure of risk management in any Group member company or a relevant business unit – Gross misconduct or reputational damage caused to the Company or Group member company – Material corporate failure in any Group member company or a relevant business unit AVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or in the following performance year.	Maximum AVPS potential of 100% of salary, for the achievement of stretching performance targets.	Measures aligned to the Business Plan and based on overall reward/penalty outcomes – 40% based on Customer Service, 40% based on Operational Performance and 20% based on a suite of Strategic Goals, which are selected by the Committee each year.
LTVPS	To align the long-term focus of the Executive Directors with those of Welsh Water's customers and stakeholders. To incentivise achievement of the company's long-term strategy.	Cash awards based on stretching performance targets. Performance is measured against threshold, target and maximum levels. Performance against the measures is assessed over the five-year period of AMP7. Interim payments are made on an annual basis. LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or until the accounts for the year to 31 March 2028 have been audited.	The maximum potential award for the Chief Executive is 500% of salary over the five-year regulatory period (to a maximum potential award of 100% per annum). For the Chief Financial Officer, the maximum potential award is 300% of salary over the five-year regulatory period to 31 March 2020 (to a maximum potential award of 60% per annum).	50% based on Totex performance and 50% based on overall reward/penalty outcomes for a range of performance development measures relevant to achieving the Company's long-term goals as set out in Welsh Water 2050.

DIRECTORS' REMUNERATION REPORT

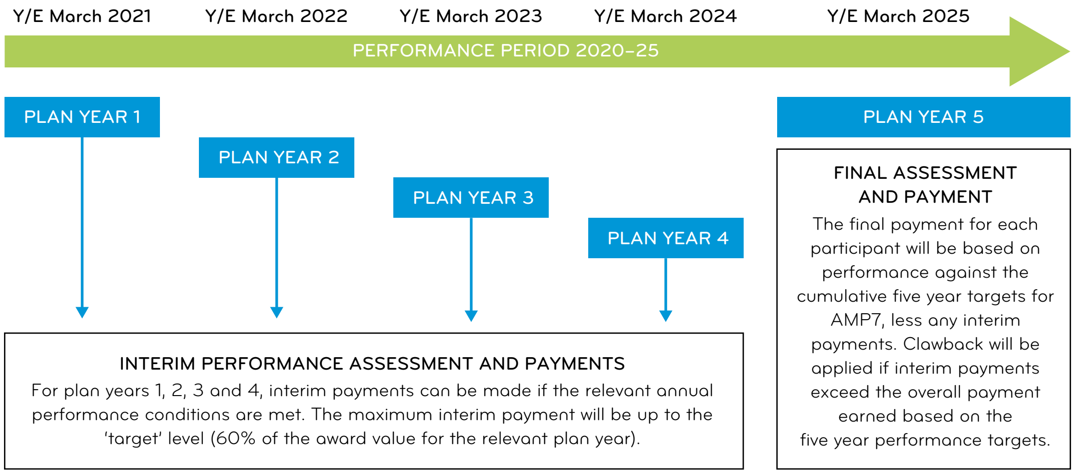
REMUNERATION

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

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

LONG-TERM INCENTIVE – LTVPS

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



INTERIM PERFORMANCE ASSESSMENT AND PAYMENTS

For plan years 1, 2, 3 and 4, interim payments can be made if the relevant annual performance conditions are met. The maximum interim payment will be up to the 'target' level (60% of the award value for the relevant plan year).

FINAL ASSESSMENT AND PAYMENT

The final payment for each participant will be based on performance against the cumulative five year targets for AMP7, less any interim payments. Clawback will be applied if interim payments exceed the overall payment earned based on the five year performance targets.

SECTION 4: PAY LAST YEAR – 2020-21

WIDER WORKFORCE PAY

The Remuneration Committee is responsible for setting the remuneration policy for the Executive Directors and Executive team and maintains oversight of pay policy across the Group. Workforce pay policy is agreed with our recognised Trade Unions and follows the terms of our Working Together and Household Customer Services Partnership Agreements. The Remuneration Committee closely followed the negotiations of these Agreements during 2019–20 led by Peter Perry in his former role of Managing Director (Regulated Business), the then People and Change Director, and the Managing Directors of Water Services, Wastewater Services and Household Customer Services.

FIXED PAY

The Annual General Salary Award is agreed with our recognised Trade Unions and salaries are uplifted consistently across the workforce. Effective 1 April 2020, the Committee approved a 2% inflationary uplift for the Executive Directors and Executive team, consistent with the award across the wider workforce.

Pension benefits are aligned across the Company with all Group Personal Pension Plan members receiving the same employer contribution as a percentage of salary, in line with best practice.

VARIABLE PAY

The Annual Variable Pay Scheme (for colleagues below Executive Director level) and the Colleague Reward Scheme utilise a number of the same key measures – those linked to Customer, Performance and Expenditure. The use of the same key measures for all variable pay schemes ensures transparency and a sense of shared ownership of the targets – the annual award of every colleague is affected/impacted by the same key targets, to a greater or lesser degree.

The Annual Variable Pay scheme for colleagues in more senior roles includes an element of opportunity based on achievement of personal objectives, as well as on Company performance. Maximum opportunity ranges from 10% to 100% of base salary.

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

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

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

PAY FOR EXECUTIVE DIRECTORS

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

		Peter Perry		Mike Davis[4]		Chris Jones[5]	
		2021 £'000s	2020 £'000s	**2021 £'000s**	2020 £'000s	**2021 £'000s**	2020 £'000s
Fixed Pay	Salary[1]	**309**	294	**245**	63	**38**	319
	Benefits[2]	**1**	1	**1**	1	**–**	1
	Other[3]	**5**	5	**–**	–	**–**	40
	Pension and pension accrual	**337**	37	**25**	10	**(50)**	74
	Total Fixed Pay	**652**	**337**	**271**	**74**	**(12)**	**434**
Variable Pay	Annual variable pay – AVPS	**149**	176	**118**	38	**–**	191
	Long-term incentive – LTVPS	**75**	33	**36**	–	**–**	60
	Total Variable Pay	**224**	**209**	**154**	**38**	**–**	**251**
Total Single Figure of Remuneration[6]		**876**	**546**	**425**	**112**	**(12)**	**685**

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

DIRECTORS' REMUNERATION REPORT

REMUNERATION

SALARY IN THE YEAR

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

1. Peter Perry and Mike Davis requested that their salaries should be reduced by 20% for May, June and July 2020 and the value of this reduction was added to the Company's Community Fund. This reduction did not impact their other elements of remuneration.
2. To 15 May 2020

PENSIONS (AUDITED)

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

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

1. To 15 May 2020

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

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

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

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

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

Element	Weighting	Metric	Threshold performance (10% achievement)	Target performance (60% achievement)	Maximum performance (100% achievement)	Performance achieved	Outcome Delivery Incentive (ODI) £m
Customer service	40%	C-Mex (% ODI)	3	4.4	6	4.4	2.0
		D-Mex (% ODI)	0	0	3	-2	(0.5)
		Business Customer Satisfaction (score)	4.4	4.4	4.5	4.4	(0.1)
Total Company ODI £m			1.2	1.8	3.3		**1.4**
Total % of Salary for this Element			4	24	40		**11.1**
Operational performance	40%	Tap water quality (score)	2.85	2.6	2.0	4.17	(1.1)
		Reliability of supply (mm:ss)	17:46	11:12	6:30	11:05	(2.8)
		Treatment works compliance (Percent)	98.35	98.70	99.00	99.66	–
		Pollution incidents (Incidents per 10,000 km of sewers)	25.7	25.0	24.5	21.5	0.5
		Bioresources disposal (Percent)	100	100	100	100	–
		Bioresources product quality (Percent)	95	95	95	96.1	0.5
		Sewer flooding to customer properties internal (Properties per 10,000 connections)	1.75	1.69	1.68	2.05	(1.6)
		Sewer flooding to customer properties external (Properties per 10,000 connections)	30.9	27.5	26.7	25.82	0.7
		Total Complaints (Complaints per 10,000 customers)	161	142	85	122	(0.1)
		Unbilled properties (Percent)	4.2	3.9	3.8	4.0	(0.3)
		Water process unplanned outages (Percent)	2.0	2.0	1.9	0.7	–
Total Company ODI £m			(12.8)	(4.3)	0.3		**(4.2)**
Total % of Salary for this Element			4	24	40		**24.3**
Strategic Goals	20%	Employee engagement (Percent)	75	80	85	85	5.0%
		Customer trust (Ranking)	Upper Quartile	Top	Top + Score ≥8.2	8th Place	0.0%
		Top water quality (Ranking)	Average	Upper quartile	Top	Upper Quartile	2.0%
		Priority services for customers in vulnerable circumstances (Percent)	4	4.3	5	5.5	3.3%
		Company level of bad debt (Percent)	2.6	2.3	2	4.2	0%
Total % of Salary for this Element			2	12	20		**10.3**
Total % Award Achieved							**45.7**

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

DIRECTORS' REMUNERATION REPORT

REMUNERATION

LONG TERM PLAN (LTVPS) OUTCOME FOR 2020-21

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

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

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

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

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

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

Measure	Units	Threshold level of performance	Target level of performance	Maximum level of performance	Performance achieved	Outcome Delivery Incentive (ODI) £m
Delivery of zonal studies programme	zones	0	0	0	0	–
Direct procurement for customers: Cwm Taf Water supply strategy scheme (underperformance)	Date	n/a	n/a	n/a	n/a	–
Direct procurement for customers: Cwm Taf Water supply strategy scheme (outperformance)	Date	n/a	n/a	n/a	n/a	–
Delivery of a new visitor centre	Delivered	n/a	n/a	n/a	n/a	–
Delivery of the Company's South Wales Grid water supply resilience scheme	% complete	0	0	0	0	–
Total						**-£3.1m**

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

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

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

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS (AUDITED)

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

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

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

DIRECTORS' REMUNERATION REPORT

REMUNERATION

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

PAY FOR EXECUTIVE DIRECTORS

	Base salary
Peter Perry	£331,617
Mike Davis	£262,830

BASE SALARY

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

BENEFITS AND PENSION

Benefits and pension arrangements will not change for 2021-22. All employees, including Executive Directors, are entitled to a maximum pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance equivalent to 9.7%. Benefits in the year will include private health insurance and car allowances.

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

ANNUAL VARIABLE PAY

	Customer Service	Operational Performance	Strategic Goals
Measures	• C-MeX and • D-MeX (Ofwat's measures of customer service for household and developer customers); and • Business Customer Satisfaction. Outcome based on total financial rewards/ penalties achieved against Ofwat's Outcome Delivery Incentives for these measures over the year.	Outcome based on regulatory reward/ penalties achieved against Ofwat's Outcome Delivery incentives for 11 measures of in-year performance. • Tap water quality • Reliability of supply • Treatment works compliance • Pollution incidents • Bioresources disposal • Bioresources product quality • Sewer flooding to customer properties (internal) • Sewer flooding to customer properties (external) • Total Complaints • Unbilled properties • Water process unplanned outages	Performance against performance commitments from the final determination. For 2021–22 these will be: • Customer Trust • Employee Engagement • Employee Training and Expertise • Tap water quality • Company level of bad debt • Risk of sewer flooding in a storm
How much of the scheme?	40%	40%	20%

LONG TERM PLAN

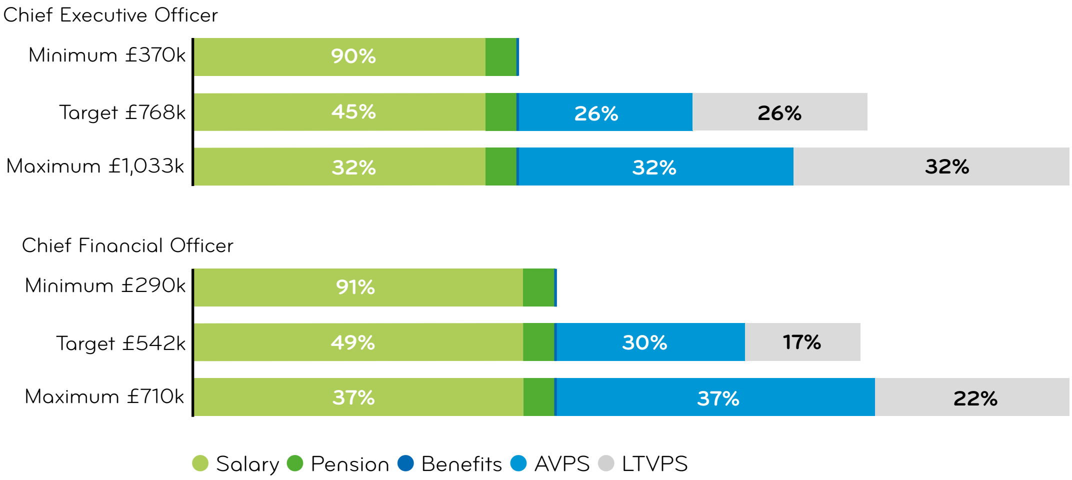
The long-term plan will continue to operate in line with the Policy. As summarised above, performance will be measured under the current five year plan and be based on:

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

HOW MUCH COULD OUR EXECUTIVE DIRECTORS EARN NEXT YEAR?

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

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



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

DIRECTORS' REMUNERATION REPORT

REMUNERATION

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS

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

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

Fees for 2021-22 will be as follows:

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

SECTION 6: OTHER IMPORTANT INFORMATION

WORKFORCE PAY ACROSS DŴR CYMRU

CEO PAY RATIO

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

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

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

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

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

METHODOLOGY NOTES

- The pay ratios reflect our remuneration principles and our approved Remuneration Policy. Total remuneration is considered to be fair and competitive and to reflect wider economic conditions, enabling us to attract and retain skills and talent.
- Other than for the Executive Directors, the variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2021.
- Other than for the Executive Directors, pension accrual has been excluded as the figures for the wider workforce were not available at the time of reporting.
- Total payments and benefits have been included on a full-time equivalent annualised basis for new hires, part-time employees, unpaid leave relating to long-term sickness and maternity.

GENDER PAY GAP

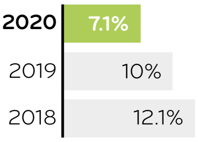
The gender pay gap is defined as the overall median and mean gender pay and bonus gap (based on hourly rate of pay at the snapshot date of 5 April 2020 and bonuses paid in the year to 5 April 2020) regardless of role or seniority. We have seen a decrease in both our median and mean Gender Pay Gaps over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

We are continuing to promote the progression of women through the Company – for further details of some of the actions we are taking to support gender and other forms of diversity throughout our organisation, please see page 88 within our Responsibility section.

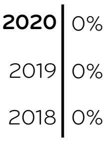
Full details of our gender pay reporting are available on our website at **dwrcymru.com/genderreport**

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

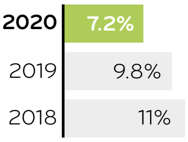
MEDIAN GAP - WELSH WATER



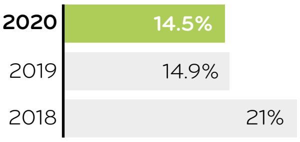
MEDIAN BONUS GAP



MEAN GAP - WELSH WATER



MEAN BONUS GAP



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

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

ETHNICITY PAY GAP

During the year, the Committee explored the possibility of including our ethnicity pay gap within this year's annual report in light of developing good practice and as part of our actions to support diversity throughout our organisation.

However, when looking at the data it became apparent that we do not currently have sufficient information available under the necessary metrics to produce meaningful information at this time. The Company launched a campaign during 2020-21 to encourage colleagues to update their diversity data within our HR system. The Committee will continue to monitor this going forward, and to encourage the collation of data across the organisation which will make this reporting possible.

ANNUAL CHANGE IN PAY FOR DIRECTORS AND ALL EMPLOYEES

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

	% change in salary/fees	% change in benefits	% change in AVP
Directors			
Peter Perry	2	(2.3)	(15.8)
Mike Davis	2	22	(36.5)

DIRECTORS' REMUNERATION REPORT

REMUNERATION

ANNUAL CHANGE IN PAY FOR DIRECTORS AND ALL EMPLOYEES

	% change in salary/fees	% change in benefits	% change in AVP
Non-executive directors			
Alastair Lyons	–	–	–
Graham Edwards	–	–	–
Joanne Kenrick	–	–	–
John Warren	–	–	–
Debra Bowen Rees	–	–	–
Tom Crick	–	–	–
Jane Hanson	–	–	–
Average Dŵr Cymru Employee	4.5	0	4.1

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

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

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

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

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

DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2021. The performance review of the Company can be found within the Strategic Report on pages 11 to 93. 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 2021. The Corporate Governance Report set out on pages 95 to 151 is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the Risk Management section from pages 66 to 73.

FINANCIAL PERFORMANCE

The Group is in a strong financial position as at 31 March 2021; gearing remains on track at 60% (2019–20: 58%) and we have retained our strong credit ratings. Read more about our financial performance, Taxation, Return of Value to our Customers, Capital Investments, Credit Rating and Interest Management, Gearing Policy and our Liquidity and Financial Reserves within the Financial Review section from pages 62 to 65.

DIVIDEND POLICY (DŴR CYMRU CYF.)

In March 2016 the Glas Board approved a Dividend Policy to permit up to £100 million of funds to be paid intra-Group, outside the regulatory ringfence, in order to enable the funding of commercial projects. No dividends were declared or paid during the year ended 31 March 2021 (2020: None).

DIRECTORS

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on pages 102 to 104. Each Director served throughout the financial year ended 31 March 2021, save for Jane Hanson who was appointed to the Board with effect from 1 January 2021.

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 pages 40, 45 and 88.

ENGAGEMENT WITH STAKEHOLDERS

Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, are set out in the Strategic Report on pages 39 to 46, and on page 55, respectively.

CORPORATE GOVERNANCE

During the year ended 31 March 2021 we have applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code and Ofwat's Guidance on Board Leadership, Transparency and Governance, as updated in 2019 and as required by our Licence conditions. Further details can be found in the Governance section on pages 106 to 109.

AMENDMENT OF ARTICLES OF ASSOCIATION

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's members.

POLITICAL DONATIONS

It is Board policy not to make donations to political parties or to incur political expenditure. During the year we agreed to make payments of £22,500 to Citizens Advice to fund a debt adviser providing advice to our customers in Rhondda Cynon Taff, and £25,579 to Step Change to support the work the charity does in providing debt advice to our customers. We are disclosing these payments as both organisations also campaign for government policy change, including on debt issues. However, none of the

DIRECTORS' REPORT

funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require to be disclosed under section 366 of the Companies Act 2006.

WATERAID AND THE PRINCE'S TRUST

As appropriate for a Company with our corporate structure, we do not engage in corporate sponsorship. However, we continue to support WaterAid and The Prince's Trust.

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 our Group structure.

GREENHOUSE GAS EMISSIONS

Due to our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on pages 90 to 93 of the Responsibility section of this report alongside our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013.

AUDITOR

KPMG LLP act as Auditors to Glas Cymru for the accounts for the year ended 31 March 2021. 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 Auditors are 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 Environment 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.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

OTHER INFORMATION

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Financial Review on pages 62 to 65.

ANNUAL GENERAL MEETING (AGM)

The Glas Cymru AGM will be held using video conference on 2 July 2021. The Notice of Meeting together with explanatory notes is contained in the circular to our Members that accompanies the report and accounts.

GOING CONCERN

The Directors' statement on going concern is on page 168. The financial statements for the year ended 31 March 2021 have been prepared on the going concern basis.

By order of the Board

Nicola Williams
Company Secretary

3 June 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 their profit or loss for that year. 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 IFRSs as adopted by the EU;
- 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 Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors have prepared a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

We consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Nicola Williams
Company Secretary

3 June 2021


Dŵr Cymru
Welsh Water

FINANCIAL RESULTS

THIS SECTION CONTAINS THE GROUP'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2020-21

Independent auditor's report

to the members of Glas Cymru Holdings Cyfyngedig

1. Our opinion is unmodified

We have audited the financial statements of Glas Cymru Holdings Cyfyngedig ("the Company") for the year ended 31 March 2021 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in reserves, parent company balance sheet, parent company statement of changes in reserves, consolidated cash flow statement, parent company cash flow statement and the related notes, including the accounting policies in note 1

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Overview		
Materiality: group financial statements as a whole	£11m (2020:£11m) 0.16% (2020: 0.15%) of Total Assets	
Coverage	100% (2020:100%) of Total Assets	
Key audit matters		**vs 2020**
Recurring risks	Group pension obligation	◀▶
	Provision for trade receivables	◀▶
	Classification of costs between operating expenditure and capital expenditure	◀▶
Parent Company only	Valuation of parent company's investment in subsidiaries	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Group pension obligation Present value of obligation (£528.9m; 2020: £470.3m) *Refer to page 123 (Audit Committee Report), page 173 (accounting policy) and page 200 (financial disclosures).*	**Subjective estimate:** Small changes in the assumptions and estimates used to value the group's pension obligation such as discount rates, inflation rates and mortality rates would have a significant effect on the group's defined benefit obligation. The effect of these matters is that, as part of our risk assessment, we determined that the value of group's pension obligation have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	Our procedures over the obligation included: — **Benchmarking assumptions:** with the support of our own actuarial specialists, we challenged the key assumptions applied, being the discount rate, inflation rates and mortality rates against externally derived data; and — **Assessing transparency:** we have considered the adequacy of the group's disclosures in respect of the sensitivity of the deficit to changes in key assumptions. We performed the tests above rather than seek to rely on any of the group's controls because the number of transactions meant that detailed testing is inherently the most effective means of obtaining audit evidence.
Provision for trade receivables Trade receivables: (£551.7m; 2020: £558.4m): Provision for impairment of receivables: (£77.8m, 2020: £81.8m) *Refer to page 123 (Audit Committee Report), page 173 (accounting policy) and page 189 (financial disclosures).*	**Subjective estimate:** The provision for doubtful debts is a significant risk area as a result of the complexity of the calculation, its subjective nature, and because of its size and the fact that any change in the balance sheet provision would directly impact profit. The provision methodology is based upon historic cash collection rates to build an expected loss model. In addition to this, management adjust for items expected to impact future cash collections such as the impact of Covid-19 in order to appropriately estimate bad debt exposure. The effect of these matters is that, as part of our risk assessment, we determined that recoverability of trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) discloses the sensitivity estimated by the Group.	Our procedures included: — **Methodology implementation:** we have assessed whether the calculation incorporated the appropriate information, risks and data including historical cash collections and write offs, to estimate the level of irrecoverable debt, based on our knowledge of the group and the industry; — **Sector experience:** we have challenged the directors' assumptions over the cash collection profiles based on our knowledge of the market, historical trends, operational performance and economic trends; — **Sector experience:** we have challenged the directors' assumptions over the impact of Covid-19 on future cash collections based on historical unemployment data and its correlation with cash collections; — **Sensitivity Analysis:** we have performed sensitivity analysis on the assumptions made, in particular future cash collection rates, and compared the impact on the level of the provision; — **Assess transparency:** we have assessed the adequacy of the group's disclosures about the degree of estimation uncertainty involved in calculating the provision. We performed the tests above rather than seeking to rely on the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Classification of costs between operating expenditure and capital expenditure PPE Additions net of grants and contributions: (£341.0m; 2020: £388.1m) *Refer to page 123 (Audit Committee Report), page 171 (accounting policy) and page 186 (financial disclosures).*	**Accounting treatment:** The group incurs a high level of expenditure on PPE ("property, plant and equipment"), including repair and maintenance, and enhancement costs. 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 and therefore are included in the carrying value of PPE, or alternatively should be expensed immediately. Third party experts are engaged to assist the directors in their assessment of the expenditure to be capitalised on infrastructure assets which are more judgemental in nature. There is a risk that costs could be inappropriately capitalised, based on the judgements made by directors in respect of non-infrastructure and infrastructure expenditure.	Our procedures included: — **Accounting analysis:** assessed the group's capitalisation policy against the requirements of the accounting standards; — **Sector experience:** on a sample basis, we have challenged the judgements made by both the group (non-infrastructure expenditure) and the independent third party engaged by the group (infrastructure expenditure) over the capitalisation based on the group's accounting policies, knowledge of the sector and underlying nature of the projects; and — **Assess expert credentials:** we have assessed the third party expert's competence to perform this assessment of capital expenditure by considering their sector experience with reference to previous industry projects and the method used. We performed the tests above rather than seeking to rely on the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.
Valuation of parent company's investment in subsidiaries Investment in subsidiaries: (£3,958.1m; 2020: £3,875.2m): *Refer to page 171 (accounting policy) and page 188 (financial disclosures).*	**Forecast based valuation:** The valuation of the parent company's investment in subsidiaries are stated at fair value. The fair value is calculated using a discounted cash flow model. The judgements relate to the future cash flow forecasts and the use of the company's Regulatory Capital Value (RCV) as its terminal value are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value of the parent company's investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: — **Methodology implementation:** assessed whether the calculation incorporates the appropriate inputs including reasonable forecasts and assumptions about the future prospects of the subsidiaries; — **Historical comparisons:** evaluated the director's forecasting ability by comparing previous forecasts to actual results; — **Benchmarking assumptions:** assessed the valuation method based on recent prices paid for similar companies within the industry, with a focus on the multiple of OFWAT reported RCV used; and — **Our sector experience:** assessed the discount rate used in the discounted cash flow with reference to the Ofwat regulatory cost of capital. We performed the tests above rather than seek to rely on any of the group's controls because the number of transactions meant that detailed testing is inherently the most effective means of obtaining audit evidence.

We continue to perform procedures over unquoted assets held by the pension scheme. However, having assessed the risks in relation to the funds being invested with well-known, established fund mangers, we have assessed this risk as no longer being one of our most significant risks in our current year audit and, therefore, it is not included within our pension risk description in our report this year.

We continue to perform procedures over Going Concern. However, having assessed the potential impacts of Covid-19 on the business and it's long-term viability, we have assessed this as no longer being one of our key audit matters in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £11m, determined with reference to a benchmark of group's total assets, of which it represents 0.16% (2020: 0.15%).

Materiality for the parent company financial statements as a whole was set at £5.7m (2020: £5.8m), determined with reference to a benchmark of parent company total assets, of which it represents 0.14% (2020: 0.15%).

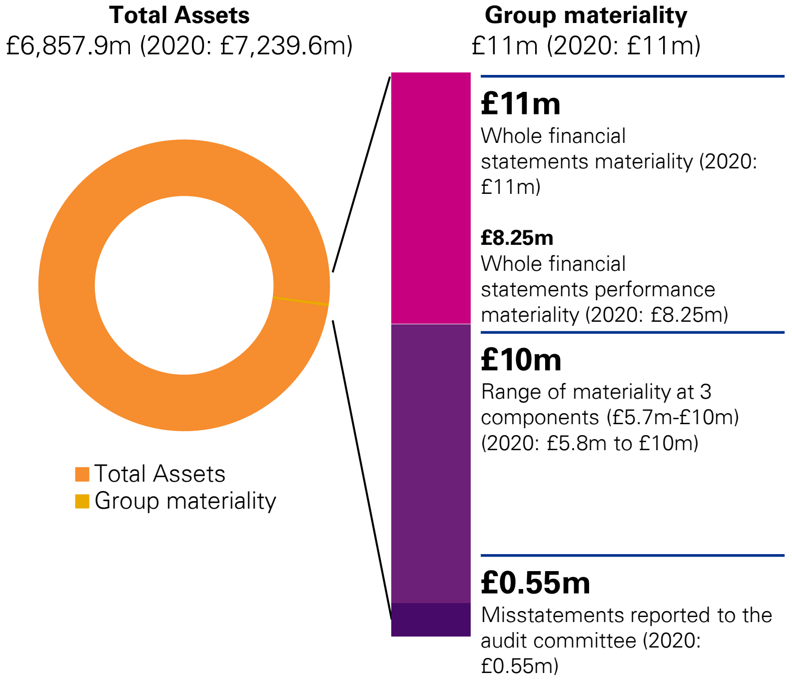
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £8.25m (2020: £8.25m) for the group and £4.275m (2020: £4.35m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.55m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 12 (2020: 12) components, we subjected 3 (2020: 3) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated opposite. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from £5.7m to £10.0m (2020: £5.8m to £10.0m), having regard to the mix of size and risk profile of the Group across the components. The work on all of the components, including the audit of the parent company, was performed by the Group team.



4. Going Concern

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

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group’s and Company’s financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group’s and Company’s available financial resources and the interest cover and regulated asset ratios relevant to debt covenants over this period was the impact of a reduction in customer collections as a result of Covid-19.

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 also 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;
- 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; and
- The related statement given as if the Listing Rules applied set out on page 74 is materially consistent with our audit knowledge.

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

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board/ audit committee minutes.

- Considering remuneration incentive schemes and performance targets for management/ directors including the AVPS and LTVPS target for directors remuneration.

- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting. 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 performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included fixed asset, and cash entries made to unrelated accounts.

- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), 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.

5. Fraud and breaches of laws and regulations – ability to detect (continued)

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, environmental legislation, water quality, health and safety 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.

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 these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the long-term viability statement (page 74) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in these respects.

7. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 151, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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
4 June 2021

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

Continuing activities	Note	2021 £m	2020 £m
Revenue	2	**778.3**	779.2
Operating costs:			
Operational expenditure	3	**(329.0)**	(325.9)
Exceptional item	3	**(33.5)**	(10.5)
Infrastructure renewals expenditure	3	**(74.4)**	(96.5)
Depreciation and amortisation	3	**(334.2)**	(316.2)
	3	**(771.1)**	(749.1)
Operating profit		**7.2**	30.1
Profit on disposal of fixed assets		**0.1**	0.4
Profit before interest		**7.3**	30.5
Financial expenses:			
Financial income	4a	**4.8**	6.2
Financial expenses	4a	**(126.1)**	(164.3)
Fair value losses on derivative financial instruments	4b	**(6.8)**	(48.3)
		(128.1)	(206.4)
Loss before taxation		**(120.8)**	(175.9)
Taxation	5	**21.9**	7.1
Loss for the year		**(98.9)**	(168.8)

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present a parent company income statement. The profit of the parent Company for the year to 31 March 2021 was £0.9 million (2020: £1.0 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

	Note	**2021** **£m**	2020 £m
Loss for the year		**(98.9)**	(168.8)
Items that will not be reclassified to profit or loss			
Actuarial loss recognised in the pension scheme	21	**(1.3)**	(0.9)
Related deferred tax	6	**0.3**	0.2
Revaluation of property, plant and equipment	7	**28.6**	132.0
Related deferred tax	6	**(5.4)**	(52.1)
Total items that will not be reclassified to profit or loss		**22.2**	79.2
Total comprehensive loss for the year		**(76.7)**	(89.6)

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2021

	Note	2021 £m	2020 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**5,821.2**	5,762.3
Intangible assets	9	**204.0**	192.2
Trade and other receivables	11	**0.8**	0.8
Other financial assets:			
– derivative financial instruments	15	**3.3**	0.2
		6,029.3	5,955.5
Current assets			
Inventories		**4.4**	4.0
Trade and other receivables	11	**570.7**	576.5
Cash and cash equivalents	12	**220.9**	667.4
Other financial assets:			
– derivative financial instruments	15	**32.6**	36.2
		828.6	1,284.1
Total assets		**6,857.9**	7,239.6
Liabilities			
Current liabilities			
Trade and other payables	13	**(540.8)**	(562.7)
Provisions	17	**(8.5)**	(6.4)
Other financial liabilities:			
– borrowings	14	**(78.3)**	(412.8)
– derivative financial instruments	15	**(39.2)**	(28.3)
		(666.8)	(1,010.2)
Net current assets		**161.8**	273.9
Non-current liabilities			
Trade and other payables	13	**(401.9)**	(314.4)
Employee benefits	21	**(89.9)**	(87.4)
Provisions	17	**(7.1)**	(7.9)
Other financial liabilities:			
– borrowings	14	**(3,676.6)**	(3,706.1)
– derivative financial instruments	15	**(478.0)**	(482.7)
Deferred tax – net	6	**(470.3)**	(486.9)
		(5,123.8)	(5,085.4)
Total liabilities		**(5790.6)**	(6,095.6)
Net assets		**1,067.3**	1,144.0
Reserves			
Revaluation reserve	7	**1,157.1**	1,203.7
Retained earnings		**(89.8)**	(59.7)
Total reserves		**1,067.3**	1,144.0

The financial statements on pages 161 to 203 were approved by the Board of Directors on 3 June 2021 and were signed on its behalf by:

PMDavis

P Perry
Chief Executive Officer

M Davis
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31 MARCH 2021

	Revaluation reserve £m	Retained earnings £m	**Total reserves £m**
At 1 April 2019	1,189.5	44.1	**1,233.6**
Loss for the year	–	(168.8)	**(168.8)**
Actuarial loss net of tax	–	(0.7)	**(0.7)**
Revaluation net of tax	79.9	–	**79.9**
Transfer to retained earnings	(65.7)	65.7	**–**
At 31 March 2020	1,203.7	(59.7)	**1,144.0**
Loss for the year	–	(98.9)	**(98.9)**
Actuarial loss net of tax	–	(1.0)	**(1.0)**
Revaluation net of tax	23.2	–	**23.2**
Transfer to retained earnings	(69.8)	69.8	**–**
At 31 March 2021	**1,157.1**	**(89.8)**	**1,067.3**

PARENT COMPANY BALANCE SHEET

AS AT 31 MARCH 2021

	Note	**2021** **£m**	2020 £m
Assets			
Non-current assets			
Investment in subsidiaries	10	**3,958.1**	3,875.2
Other financial assets:			
– loans to group undertakings	11	**21.6**	21.6
		3,979.7	3,896.8
Current assets			
Trade and other receivables		**3.1**	2.2
Cash and cash equivalents	12	**8.7**	8.7
		11.8	10.9
Net assets		**3,991.5**	3,907.7
Reserves			
Retained earnings		**33.5**	32.6
Revaluation reserve		**3,958.0**	3,875.1
Total reserves		**3,991.5**	3,907.7

The financial statements on pages 161 to 203 were approved by the Board of Directors on 3 June 2021 and were signed on its behalf by:

PMDavis

P Perry
Chief Executive Officer

M Davis
Chief Financial Officer

PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31 MARCH 2021

	Revaluation reserve £m	Retained earnings £m	**Total reserves** **£m**
At 1 April 2019	3,833.4	31.6	**3,865.0**
Profit for the year	–	1.0	**1.0**
Revaluation	41.7	–	**41.7**
At 31 March 2020	**3,875.1**	**32.6**	**3,907.7**
Profit for the year	**–**	**0.9**	**0.9**
Revaluation	**82.9**	**–**	**82.9**
At 31 March 2021	**3,958.0**	**33.5**	**3,991.5**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £m	2020 £m
Cash flow from operating activities			
Cash generated from operations*	18a	348.4	340.7
Interest paid	18b	(110.7)	(136.7)
Income tax received		2.5	2.1
Net cash flow from operating activities		240.2	206.1
Cash flow from investing activities			
Interest received		5.1	6.1
Purchase of property, plant and equipment		(277.8)	(337.0)
Purchase of intangible assets		(44.6)	(46.1)
Proceeds from sale of plant and equipment		0.2	0.6
Grants and contributions received		18.2	24.6
Net cash outflow from investing activities		(298.9)	(351.8)
Net cash flow before financing activities		(58.7)	(145.7)
Cash flows from financing activities			
Repayment of borrowings		–	(139.3)
Bond issue		–	500.0
Bond issue costs		–	(7.2)
Bond repayments		(325.0)	–
Term loan repayments		(49.9)	(29.2)
Payment of lease liabilities		(12.9)	(12.3)
Net cash flow from financing activities		(387.8)	312.0
(Decrease)/increase in cash and cash equivalents	19b	(446.5)	166.3
Cash and cash equivalents at 1 April		667.4	501.1
Cash and cash equivalents at 31 March	12	220.9	667.4

* Exceptional costs are included in cash flows generated from operations.

PARENT COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £m	2020 £m
Cash flow from investing activities			
Interest received		–	0.1
Net cash flow from investing activities		–	0.1
Increase in cash and cash equivalents		–	0.1
Cash and cash equivalents at 1 April		8.7	8.6
Cash and cash equivalents at 31 March	12	8.7	8.7

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2021

Glas Cymru Holdings Cyfyngedig ('the Company') is a private company incorporated, domiciled and registered in Wales in the UK. The registered number is 09917809 and the registered address is Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT.

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

BASIS OF PREPARATION

Glas Cymru Holdings Cyfyngedig is limited by guarantee and is the ultimate parent company of the Glas Group.

The consolidated financial statements of Glas Cymru Holdings Cyfyngedig and the parent company financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 "IFRSs" requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 176.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-group transactions and profits are eliminated on consolidation.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are de-consolidated from the date on which control ceases.

The Company financial statements present information about the Company as a separate entity and not about its group.

GOING CONCERN

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

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of the Covid-19 pandemic on the Group.

This baseline plan assumes that the lifting of restrictions continues to follow the Government's 22 February Roadmap, which would ease restrictions in June, with elements of social distancing continuing into the foreseeable future. Unemployment is assumed to peak around 6.5% at the end of 2021, recovering slowly to pre-pandemic levels by 2025; CPIH falls to an average of 1.5% during 2021 and recovers to the government's long-term target of 2% in 2022/23. The worst-case scenario impact on turnover is considered to be behind us, with 2020/21 seeing a circa £21 million reduction in non-household revenues (12%, demand-driven), with a further circa £5 million of revenue voluntarily abated, offset by an increase in household revenues of circa £9 million. However, under regulatory mechanisms lost revenues are recoverable in future years.

This baseline plan has then been subject to a furthermore extreme downside stress scenario, which assumes an additional drop in CPIH to below -2%, recovering to 3% by March 2023 and unemployment at around 6.5%. Consequential impacts on the Group's cost base are greater pressure on bad debts (circa £4 million per annum through to 2022/23), as well as further reductions in revenues.

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

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the 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 2020:

Amendments

- IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' amendments relating to Interest Rate Benchmark Reform ('IBOR') reform Phase 1 exceptions;
- IFRS 3 'Business Combinations' amendments to the definitions of a business;
- IFRS 16 amendments relating to Covid-19 related rent concessions;
- IAS 1 'Presentation of Financial Statements and IAS 8 'Accounting Policies, Changing in Accounting Estimates and Errors' amendments to the definition of materiality; and
- Conceptual framework revision.

IFRS, IAS 39 AND IFRS 7 AMENDMENTS RELATING TO IBOR:

The Phase 1 exceptions modify specific hedge accounting requirements which allow for the assumption that the interest rate benchmark on which the hedged cash flows and cash flows from hedged instruments are based will not be altered as a result of the interest rate benchmark reform. This exception is not intended to provide relief from any other consequences arising from the interest rate benchmark reform, such as the discontinuation of hedge accounting due to a termination of the hedge relationship. It also identifies the specific disclosures about the extent to which the Group's hedging relationships are affected.

The Phase 1 exceptions did not impact the Group at the balance sheet date as the Group's hedged instruments do not qualify for hedge accounting. For transparency and understanding of the potential impact the IBOR reforms have on the Group's Treasury dealings, we have included an impact assessment below:

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates (IBORs) has become a priority for global regulators. The Financial Conduct Authority (FCA) has set UK financial institutions a deadline of 30 September 2021 to agree and implement LIBOR reform language changes, which will impact several of the Group's bilateral Treasury contracts. The Group's risk exposure that is directly affected by the interest rate benchmark reform is £100 million floating-rate debt (see note 15). This is made up of £1,405 million of floating rate nominal debt consisting of a mixture of loans, leases, and Revolving Credit Facility ('RCF'), offset by £741 million notional swaps value. The Group has hedged this debt with interest rate swaps and index-linked swaps, although the Group does not hedge account for any of its derivatives. At 31 March 2021, the Group had fixed the interest rate through interest rate swaps on £192 million of floating rate liabilities, and index-linked the interest rate on £391 million notional value of lease liabilities by reference to the Retail Price Index.

It is currently expected that Sterling Overnight Index Average (SONIA) will replace GBP LIBOR. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period, and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

The Board has established a project plan to oversee the Group's GBP LIBOR transition. This transition project will include changes to policies, processes, risk and valuation models, as well as managing related tax and accounting implications. The Group currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES CONTINUED

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:

Standard

- IFRS 17 – Insurance Contracts

Amendments

- IAS 1 – Presentation of Financial Statements
- IAS 16 - Property, Plant and Equipment
- IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IFRS 3 – Business Combinations
- IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments
- IFRS 9 - Financial Instruments
- IFRS 10 – Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures
- IFRS 17 – Insurance contracts
- Annual Improvements 2018-2020

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 95% of total income, and there is a clear performance obligation satisfied over a measured period of time; 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.

SEGMENT REPORTING

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

EXCEPTIONAL ITEMS

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

INVESTMENTS

The Company's investments comprise equity holdings in wholly-owned subsidiaries, as set out in note 10. These are stated at fair value with any resultant gain or loss being recognised directly in equity, in the revaluation reserve (note 7).

The fair value has been calculated using a discounted cash flow technique, alongside considering observable market transactions, with reference to the Group's weighted average cost of capital.

BUSINESS COMBINATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

Property, plant and equipment comprise:

a. Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
b. Other assets (including properties, ground operational structures and equipment, and fixtures and fittings).

INFRASTRUCTURE ASSETS

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

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

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

OTHER ASSETS

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

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

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

BORROWING COSTS

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES CONTINUED

INTANGIBLE ASSETS

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

The carrying values of intangible assets are reviewed for impairment if circumstances indicate they may not be recoverable. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives, which range between three and 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 Company's estimated incremental borrowing rate.

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

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

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

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

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

GRANTS AND CUSTOMER CONTRIBUTIONS

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

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

CAPITAL EXPENDITURE PROGRAMME INCENTIVE PAYMENTS

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

TRADE RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

PENSION BENEFITS

1) DEFINED BENEFIT SCHEME

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

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

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

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

2) DEFINED CONTRIBUTION SCHEME

The Group operates a defined contribution scheme, the DCWW Group Personal Pension Plan, which all employees are eligible to join. Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

OTHER FINANCIAL LIABILITIES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES CONTINUED

FINANCING INCOME AND EXPENSES

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

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

TAXATION

The Group continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest the Group pay to fund it have the effect of delaying corporation tax payments to future periods.

Income tax for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

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

DEFERRED TAXATION

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

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

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

PROVISIONS

Provisions for restructuring costs, 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. 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 are 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 has a prudent policy for investing cash and short-term bank deposits set by the bond documentation within the Common Terms Agreement. Deposits can be placed with the Group's Account Bank for overnight risk only or for up to one year with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. Deposits of over one year are placed with counterparties that have a minimum long-term rating of AA-/Aa3/AA-.

In practice, the Group has adopted a more prudent approach to cash management and timed deposits are placed for a maximum of 35 days 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 2021, the maximum cash investment with a single counterparty was £100 million (2020: £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 2021, the Group had hedges covering 98.8% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2020: 100%). For this purpose, floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the Group to inflation risk. Therefore, subject to market constraints and Board approval, the Group may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £3,707 million as at 31 March 2021 (2020: £4,055 million), £45 million related to floating rate debt (2020: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2021, 99% (2020: 100%) of the Group's gross debt was at fixed or index-linked to RPI rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are economic in nature, but do not satisfy the requirements in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £481 million in the balance sheet at 31 March 2021 (2020: £475 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.

POWER PRICE HEDGES

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

REFINANCING RISK

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £3,707 million (2020: £4,055 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.

During the year the Group renewed all four of its revolving credit facilities and increased three of them by £10 million each. As at 31 March 2021, the Group had committed undrawn borrowing facilities of £200 million (2020: £170 million) and cash and cash equivalents (excluding debt service payments account) of £187 million (2020: £657 million). The undrawn facilities are available for two years with a one-year extension option. There is also a £10 million overdraft facility renewable on an annual basis.

As at 31 March 2021 there was also a special liquidity facility of £135 million (2020: £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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES CONTINUED

Value as determined by Ofwat and linked to movements in the Retail Prices Index. As at 31 March 2021 the measure of regulatory gearing was 60% (2020: 60%).

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

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

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. Management uses standardised collection rates to determine the level of bad debts provisions. These are as follows:

Measured debt based on historical evidence:

- 95% collection of debt less than one year old; and
- no collection of debt over one year old.

Unmeasured debt based on historical evidence:

- 80% collection of debt less than one year old;
- 5% collection of debt between one and four years' old; and
- no collection of debt over four years' old.

Accounting estimate - the probability of failing to recover a debt is based on expected credit loss, determined by past experience and expected future movements in collection rates, adjusted for changes in external factors (including the estimated impact of the Covid-19 pandemic). The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £3.9 million (2020: £4.1 million). Charging orders are secured against property owned by customers, providing security over debt owed. We make an assumption that 90% of these charging orders will be received. To the extent that this assumption was to alter by 10%, the provision for impairment would increase or decrease by £1 million (2020: £1 million).

PENSION BENEFITS

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, price inflation and mortality rates, which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high-quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2021 would increase or reduce by £9.8 million (2020: £8.7 million). The key assumptions include: discount rates, RPI, pay growth, mortality and increases to pensions in payment and deferred pensions. 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. A further source of estimation uncertainty pertains to the inflation risk premium (IRP) which has been set at 0.6% this year, compared with 0.4% in the prior year, which has increased as a result of our view on the market's uncertainty and volatility.. The impact of the change in the IRP applied represents a significant area of judgment, with the change expected to have an impact of reducing the obligation by circa £19 million. Sensitivities in respect of the assumptions used during the year are disclosed in note 21.

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 £443 million (2020: £388 million), assets with a fair value of £100 million (2020: £147 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 £5.0 million (2020: £7.4 million). (See also note 21.)

COVID-19 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 with improvements in line with the Continuous Mortality Investigation (CMI) 2018 projection model, with a long-term trend rate of 1.0% p.a. These assumptions remain unchanged from those adopted last year and are consistent with the mortality assumptions currently used for funding purposes. Future period assumptions will be updated following the completion of the formal triennial valuation of the Scheme as at 31 March 2022. No allowance has been made in these disclosures for the impact of Covid-19.

No accounting estimate has been made in these accounts to predict the long-term impact of Covid-19 on life expectancies due to the current number of uncertainties surrounding this estimate. Furthermore, the CMI has not made any allowance for Covid-19 within their latest projection model but will monitor the position as more data becomes available. The CMI model is used by UK pension schemes and insurance companies which need to make assumptions about future mortality rates. The CMI have stated that mortality experience during 2020 is likely to be an outlier and not indicative of the future path that mortality rates will follow. For this reason, the CMI places no weight on the data for 2020 when projecting mortality rates into the future and therefore the assumptions used to calculate the present value of pension obligations, with no explicit allowance for Covid-19, remain appropriate at the current time.

PARENT COMPANY'S INVESTMENT IN SUBSIDIARIES

Glas Cymru Holdings Cyfyngedig's investment in its subsidiaries is reported at fair value, using a discounted cash flow approach with reference to projected revenues and expenditure, the weighted average cost of capital and the company's Regulatory Capital Value. The forecasts on which the cash flows and RCV movements are based are drawn from our 2021 financial plan, itself based on our PR19 Final Determination plan set by Ofwat. There is an inherent uncertainty involved in forecasting the estimated impact of the Covid-19 pandemic, but due to the size of its impact, a sensitivity analysis would yield an immaterial change to the valuation. The discount rate used to discount future cash flows is based on the regulator's allowed weighted average cost of capital (WACC), based on our PR19 Final Determination plan set by Ofwat. Due to its inherent uncertainty, this has been subjected to sensitivity testing with a 0.1% change in the discount rate used would increase or decrease the valuation by £116 million (2020: £113 million). (See also note 10).

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.

As at 31 March 2021 the fair values of derivatives were as follows:

Level 2:

Assets: trading derivatives £3.9 million, treasury derivatives £28.1 million (2020: trading derivatives £0.1 million, treasury derivatives £36.1 million).

Liabilities: trading derivatives £nil treasury derivatives £517.2 million (2020: trading derivatives £1.2 million, treasury derivatives £508.9 million).

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES CONTINUED

Level 3:

Assets: trading derivatives £3.9 million, treasury derivatives £nil (2020: trading derivatives £0.2 million, treasury derivatives £nil).

Liabilities: trading derivatives £nil, treasury derivatives £nil (2020: trading derivatives £0.9 million, treasury 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. 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.

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	2021 £m	2020 £m
Regulated revenue		
Water	323.1	322.8
Sewerage	399.8	394.0
Retail	49.1	55.3
Total regulated revenue	772.0	772.1
Other (non-regulated)	6.3	7.1
Total revenue	778.3	779.2

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

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

3. OPERATING PROFIT

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

Group	2021 £m	2020 £m
Operating expenditure		
Power	45.8	46.3
Chemicals	9.5	11.3
Materials and equipment	7.3	5.8
Vehicles and plant	6.7	8.2
Office expenses	5.6	6.7
Property costs	4.7	4.2
Insurance	6.6	4.9
Water and sewerage contractors	20.1	19.8
Laboratories and analytical services	1.1	0.8
Collection commissions	2.8	2.7
IT contracts	14.6	14.0
Bought-in services and other costs	41.2	40.8
Employee costs (note 20)	168.1	165.8
Staff costs capitalised	(67.9)	(69.6)
Research and development credit	(0.9)	(1.3)
Trade receivables impairment	20.9	25.2
Rates	26.5	24.2
Natural Resources Wales/Environment Agency charges	15.9	15.6
Fees payable to Auditors	0.4	0.5
Total operational expenditure	**329.0**	325.9
Exceptional item	33.5	10.5
Infrastructure renewals expenditure	74.4	96.5
Depreciation and amortisation		
Depreciation of property plant and equipment	310.5	294.3
Release of deferred income	(9.1)	(7.1)
Amortisation of intangible assets	32.8	29.0
Total depreciation and amortisation	**334.2**	316.2
Total operating costs	**771.1**	749.1

The Group incurred insignificant expenses relating to short-term leases, leases of low-value assets or variable lease payments in 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING PROFIT CONTINUED

SERVICES PROVIDED BY THE GROUP'S AUDITOR

During the year, the Group obtained the following services from its statutory Auditor:

Group	2021 £000	2020 £000
Audit fees		
Audit of parent company and consolidated financial statements	34	28
Audit of subsidiary companies	268	222
Total audit fees	302	250
Audit-related assurance services		
Review of interim financial statements	24	21
Regulatory audit services pursuant to legislation	82	53
Investor report reviews	8	8
Environment Agency levy assurance work	6	6
Bond issuance assurance work	–	38
Total audit and audit-related assurance services	422	376
Other services		
Tax iXRBL document tagging	–	5
Pensions advice	–	62
Direct Procurement for Customers project assessment	–	37
Total other services	–	104
Total cost of services provided by the Group's Auditors	422	480

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

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

EXCEPTIONAL ITEM

During the year the company has incurred significant additional costs as a direct result of the Covid-19 pandemic; due to their size and nature these costs, amounting to £29.4 million, have been disclosed in aggregate as an exceptional item on the face of the income statement. In addition, a further £4.1 million of restructuring costs have been disclosed as exceptional following a reassessment of the level of restructuring provision, taking into account delays to the restructuring plans as a result of the Covid-19 pandemic (included in manpower in the list below). The additional costs can be split into the following categories:

Group	2021 £m
Bad debt charges	12.5
National Grid (additional levy following national demand drop)	3.4
Personal protective equipment (hand sanitisers, wipes, masks, goggles etc.)	7.6
Cleaning, tankering, security	1.6
Maintenance work on infrastructure assets	2.4
IT hardware	0.5
Vehicle hire	0.2
Manpower	5.2
Other	0.1
Total	33.5

3. OPERATING PROFIT CONTINUED

Glas Cymru's final business plan for the regulatory period 2020 to 2025 included restructuring plans to meet a challenging cost efficiency target, reflected in Ofwat's PR19 Final Determination published on 10 December 2019. As a consequence, in the year to 31 March 2020 the Group recognised £10.5 million of restructuring costs associated with a projected headcount reduction of around 200; these were considered exceptional by their nature and disclosed separately in the financial statements.

4. FINANCING COSTS

A) FINANCE COST BEFORE FAIR VALUE LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2021 £m	2020 £m
Finance income	4.8	6.2
Financial expenses:		
Interest payable on bonds	(75.6)	(93.5)
Indexation on index-linked bonds	(21.2)	(36.3)
Indexation on index-linked loan	(3.2)	(6.1)
Interest payable on leases (including swaps to RPI)	(11.6)	(17.4)
Other loan interest	(16.8)	(17.6)
Other interest payable and finance costs	(7.0)	(5.6)
Net interest charge on pension scheme liabilities	(2.0)	(2.2)
Capitalisation of borrowing costs under IAS 23 (2021: 3.7%; 2020: 4.7%)	11.3	14.4
Financial expenses	(126.1)	(164.3)
Net finance cost before fair value adjustments	(121.3)	(158.1)

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 gain or loss disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 15 in respect of derivative financial instruments held on the balance sheet.)

Group	2021 £m	2020 £m
Fair value losses on interest rate swaps	(18.8)	(21.6)
Fair value gains/(losses) on index-linked swaps	2.5	(20.9)
Fair value gains/(losses) on trading derivatives	9.5	(5.8)
Fair value losses on derivative financial instruments	(6.8)	(48.3)

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.

NOTES TO THE FINANCIAL STATEMENTS

5. TAXATION

ANALYSIS OF CREDIT IN THE YEAR

Group	2021 £m	2020 £m
Current tax		
Current tax on loss for the year	–	0.8
Current tax on research and development credit	(0.2)	(0.2)
Adjustment in respect of prior years	0.4	1.4
Total current tax	0.2	2.0
Deferred tax		
Origination and reversal of timing differences	22.3	29.9
Adjustment in respect of prior years	(0.6)	(1.6)
Effect of tax rate change	–	(23.2)
Total deferred tax (note 6)	21.7	5.1
Taxation	21.9	7.1

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 an Research & Development tax credit of £0.9 million (2020: £1.3 million). The tax credit is taxable and the corresponding charge of £0.2 million (2020: £0.2 million) is shown above. The Research & Development Expenditure Credit claimed is a government incentive that provides tax credits for qualifying research and development 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 £0.4 million (2020: £1.4 million) relate to tax credits for energy efficient capital expenditure and the remediation of contaminated land. Both are claimed under government incentives which provide tax credits for this particular expenditure. Claims are made based on an assessment of qualifying expenditure in accordance with the criteria for these incentives. As a consequence, a deferred tax charge in respect of prior years of £0.6 million (2020: £1.6 million) has arisen from claiming these tax credits and from adjustments to deferred tax balances in respect of capital expenditure. The net adjustment relating to prior years is £0.2 million (2020: £0.2 million) as shown in the total tax reconciliation below.

In the 3 March 2021 Budget it was announced that the UK tax rate will increase from 19% to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge. Management estimates that if this rate change had been substantively enacted at the current balance sheet date the net deferred tax liability, which is currently calculated at 19%, would have increased by £148.5 million. Approximately £85.6 million of the increase relates to fixed assets which have been revalued and would be recognised in equity; the remaining £62.9 million would be recognised in the income statement.

The effective rate of tax for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

Group	2021 £m	2020 £m
Loss before tax	(120.8)	(175.9)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2020: 19%)	23.0	33.4
Effect of:		
Adjustments in respect of prior years	(0.2)	(0.1)
Depreciation charged on non-qualifying assets	(0.8)	(0.8)
Expenses not deductible for tax purposes	(0.1)	(0.1)
Effect of pension payments in excess of service charge	–	1.6
Effect of changing rate for deferred tax from 17% to 19%	–	(23.2)
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	–	(3.7)
Taxation	21.9	7.1

5. TAXATION CONTINUED

Group	2021 £m	2020 £m
Loss before tax	(120.8)	(175.9)
Expected tax charge (19%)	23.0	33.4
Depreciation in excess of capital allowances	(27.7)	(29.3)
Pension costs in excess of payments	(0.4)	1.8
Expenses not deductible for tax purposes	(0.1)	(0.1)
Fair value movements in derivatives - non taxable	1.2	(7.9)
IFRIC 18 - release of income not taxable	1.7	1.4
Movement in provisions deductible when paid	0.1	(1.1)
Capitalised interest - tax deductible when capitalised	2.1	2.8
R&D Expenditure Credits taxed in prior years	–	0.2
Adjustments in respect of prior years	0.4	1.4
Tax losses carried forward	(0.1)	(0.2)
Group relief	–	–
Effect of lower tax credit (12.7%) for tax losses surrender re energy efficient expenditure	–	(0.4)
Taxation	0.2	2.0

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.

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

NOTES TO THE FINANCIAL STATEMENTS

6. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2020: 19%).

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

Group	2021 £m	2020 £m
At 1 April	**486.9**	440.1
Credit to income statement	**(21.7)**	(5.1)
Credit to the Statement of comprehensive income	**(0.3)**	(0.2)
Charge to revaluation reserve	**5.4**	52.1
At 31 March	**470.3**	486.9

Analysis of amounts charged to the Statement of Comprehensive Income and revaluation reserve:

Group	2021 £m	2020 £m
Defined benefit pension scheme	**(0.3)**	(0.1)
Reallocation of tax from income statement – pension payment in excess of service charge	**–**	1.6
Increase in corporation tax rate – pension scheme	**–**	(1.7)
Credited to the Statement of Comprehensive Income	**(0.3)**	(0.2)
Revaluation of fixed assets	**5.4**	22.4
Increase in corporation tax rate – revaluation of fixed assets	**–**	29.7
Charged to the revaluation reserve	**5.4**	52.1

Group	2021 £m	2020 £m
Effect of:		
Tax allowances in excess of depreciation	**296.6**	303.0
Deferred tax on revaluation of fixed assets	**271.1**	282.0
Capital gains rolled over	**3.0**	3.0
Deferred tax on tax losses carried forward	**(2.2)**	(2.2)
Deferred tax on losses on derivative financial instruments	**(79.3)**	(80.4)
Pensions	**(16.4)**	(15.7)
Other tax differences	**(2.5)**	(2.8)
Deferred tax	**470.3**	486.9

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 £296.6 million at the balance sheet date (2020: £303 million).

A deferred tax liability of £271.1 million (2020: £282.0 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 £79.3 million (2020: £80.4 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/deductible 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 £16.4 million (2020: £15.7 million) has also been recognised in relation to the deficit on the pension scheme – see note 21. Tax deductions will be available when the deficit is paid.

6. DEFERRED TAX CONTINUED

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. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future years.

The Company has no deferred tax balance (2020: none).

7. REVALUATION RESERVE

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

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

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

Revaluation reserve movement	**2021** **£m**	2020 £m
Revaluation reserve as at 1 April	**1,203.7**	1,189.5
Revaluation of assets to RCV	**28.6**	132.0
Depreciation charge on revalued assets	**(86.2)**	(81.1)
	(57.6)	50.9
Deferred tax on revaluation	**(5.4)**	(52.1)
Deferred tax on depreciation charge	**16.4**	15.4
	11.0	(36.7)
Revaluation reserve as at 31 March	**1,157.1**	1,203.7

The movement in the parent Company's revaluation reserve relates solely to the increase in the value of the Company's investment in subsidiaries during the year, by £9.2 million, from £3,875.2 million to £3,884.4 million (2020: increase of £41.8 million, from £3,833.4 million to £3,875.2 million). This is reflected in the Statement of Changes in Reserves.

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

Group — 2021	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2020	43.1	2,632.4	4,578.6	276.8	7,530.9
Additions net of grants and contributions	–	165.7	172.0	3.3	341.0
Disposal	(0.1)	–	–	(1.7)	(1.8)
At 31 March 2021	43.0	2,798.1	4,750.6	278.4	7,870.1
Accumulated depreciation					
At 1 April 2020	23.0	1.9	1,472.8	270.9	1,768.6
Revaluation	–	(12.9)	(15.7)	–	(28.6)
Charge for the year	1.1	68.4	238.6	2.4	310.5
Released on disposal	–	–	–	(1.6)	(1.6)
At 31 March 2021	24.1	57.4	1,695.7	271.7	2,048.9
Net book value					
At 31 March 2021	18.9	2,740.7	3,054.9	6.7	5,821.2
At 31 March 2021 (historic cost basis)	18.9	2,023.7	2,345.3	6.7	4,394.6

The net book value of property, plant and equipment includes £272.9 million in respect of assets in the course of construction (2020: £263.6 million).

The net book value of property, plant and equipment includes £85.0 million of borrowing costs capitalised in accordance with IAS 23 (2020: £77.9 million) of which £9.5 million were additions in the year (2020: £12.6 million).

Group – 2020	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2019	41.7	2,491.0	4,340.5	272.2	7,145.4
Additions net of grants and contributions	1.4	141.4	238.1	7.2	388.1
Disposal	–	–	–	(2.6)	(2.6)
At 31 March 2020	43.1	2,632.4	4,578.6	276.8	7,530.9
Accumulated depreciation					
At 1 April 2019	22.1	–	1,317.8	268.8	1,608.7
Revaluation	–	(59.0)	(73.0)	–	(132.0)
Charge for the year	0.9	60.9	228.0	4.5	294.3
Released on disposal	–	–	–	(2.4)	(2.4)
At 31 March 2020	23.0	1.9	1,472.8	270.9	1,768.6
Net book value					
At 31 March 2020	20.1	2,630.5	3,105.8	5.9	5,762.3
At 31 March 2020 (historic cost basis)	20.1	1,910.6	2,341.5	5.9	4,278.1

8. PROPERTY, PLANT AND EQUIPMENT CONTINUED

RIGHT-OF-USE ASSETS

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

Group — 2021	**Infrastructure assets £m**	**Operational structures £m**	**Total £m**
Net book value at 1 April 2020	654.4	33.6	688.0
Revaluation	4.2	0.2	4.4
Depreciation charge for the year	(25.3)	(4.8)	(30.1)
Net book value at 31 March 2021	**633.3**	**29.0**	**662.3**
Net book value at 31 March 2021 (historical cost)	**467.6**	**22.3**	**489.9**

Group — 2020	Infrastructure assets £m	Operational structures £m	Total £m
Net book value at 1 April 2019	662.9	36.0	698.9
Additions	–	1.4	1.4
Revaluation	19.9	1.1	21.0
Depreciation charge for the year	(28.4)	(4.9)	(33.3)
Net book value at 31 March 2020	654.4	33.6	688.0
Net book value at 31 March 2020 (historical cost)	475.3	25.3	500.6

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 — 2021	**Cost £m**	**Amortisation £m**	**Net book value £m**
At 1 April 2020	**417.9**	**(225.7)**	**192.2**
Additions/(charge for the year)	**44.6**	**(32.8)**	**11.8**
At 31 March 2021	**462.5**	**(258.5)**	**204.0**

Intangible assets principally comprise computer software and related system developments.

Group — 2020	Cost £m	Amortisation £m	Net book value £m
At 1 April 2019	371.8	(196.7)	175.1
Additions/(charge for the year)	46.1	(29.0)	17.1
At 31 March 2020	417.9	(225.7)	192.2

The net book value of intangible assets includes £39.0 million in respect of assets in the course of construction (2020: £34.7 million). The net book value of intangible assets includes £9.3 million of borrowing costs capitalised in accordance with IAS 23 (2020: £8.2 million), of which £1.8 million were additions in the year (2020: £1.8 million).

The parent company owns no intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS

GROUP

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

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

PARENT COMPANY

The parent Company has a £10 investment in Glas Cymru Anghyfyngedig (100% holding) and a £100,000 investment in Welsh Water Holdings Limited (100%). It also has indirect investments in the following subsidiary undertakings:

	Principal activities	Tax residency	Country of incorporation	Holding
Glas Cymru (Securities) Cyfyngedig	Holding company	UK resident	England and Wales	100%
Glas Cymru Anghyfyngedig	Holding company	UK resident	England and Wales	100%
Dŵr Cymru (Holdings) Limited	Holding company	UK resident	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	UK resident	England and Wales	100%
Dŵr Cymru (Financing) UK Plc	Raising finance	UK resident	England and Wales	100%
Cambrian Utilities Limited	Retail services in the competitive market	UK resident	England and Wales	100%
Welsh Water Infrastructure Limited	Competitive business activity in the water sector and other associated sectors	UK resident	England and Wales	100%
Welsh Water Organic Energy Limited	Food waste processing, treatment and recycling	UK resident	England and Wales	100%
Welsh Water Organic Energy (Cardiff) Limited	Operation and maintenance of an anaerobic digestion food waste facility	UK resident	England and Wales	100%
Welsh Water Organic Waste Limited	Tankering of liquid waste for disposal	UK resident	England and Wales	100%

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

Dŵr Cymru (Financing) UK Plc was incorporated on 16 April 2019. On 1 August 2019 the trade and assets of Dŵr Cymru (Financing) Limited were transferred into Dŵr Cymru (Financing) UK Plc.

Dŵr Cymru (Financing) Limited entered voluntary liquidation on 9 September 2019 and was closed on 22 March 2021.

The parent company has revalued its investments in subsidiary undertakings to fair value; the carrying value is revalued annually and subject to an impairment review.

Further information on the Group's structure is available on page 211 of this Annual Report and Accounts.

Investment in subsidiaries	2021 £m	2020 £m
At 1 April	3,875.2	3,833.5
Revaluation	82.9	41.7
At 31 March	3,958.1	3,875.2

The parent company's investments in subsidiary companies are initially recognised at cost and subsequently revalued to fair value using a discounted cash flow method. The fair value of investments comprises mainly the fair value of the regulated water and sewerage company, Dŵr Cymru Cyfyngedig. A present value has been determined using a discount rate based on the regulator's allowed weighted average cost of capital (WACC) and a terminal value being the projected Regulatory Capital Value.

We have set the discount rate at 2.4%, being the WACC allowed by Ofwat in its Final Determination for the period 2020 to 2025.

10. INVESTMENTS CONTINUED

The RCV is set by Ofwat every five years and is, in effect, a proxy for the economic value in use of the appointed business for Dŵr Cymru Cyfyngedig. The terminal value is based on a projection of the RCV resulting from the cash flows in our financial forecasts.

The forecasts on which the cash flows and RCV movements are based are drawn from our 2020 Financial Plan, itself based on our PR19 Final Determination plan set by Ofwat.

See also the critical accounting estimates in note 1.

Revaluation amounts are recognised in other comprehensive income.

11. TRADE AND OTHER RECEIVABLES

Group	2021 £m	2020 £m
Current		
Trade receivables	**551.7**	558.4
Provision for impairment of receivables	**(77.8)**	(81.8)
Trade receivables – net	**473.9**	476.6
Prepayments and accrued income	**87.9**	86.9
Other receivables	**8.9**	13.0
	570.7	576.5
Non-current		
Other receivables	**0.8**	0.8
Total trade and other receivables	**571.5**	577.3

As at 31 March 2021, based on a review of historical collection rates, it was considered that £77.8 million (2020: £81.8 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.

2021 Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
Billed in advance	**369.6**	**–**	**369.6**
Under one month	**25.0**	**(2.5)**	**22.5**
Between one and six months	**37.8**	**(3.6)**	**34.2**
Between six months and one year	**26.7**	**(2.9)**	**23.8**
Between one and two years	**40.2**	**(28.4)**	**11.8**
Between two and three years	**29.8**	**(21.4)**	**8.4**
Over three years	**22.6**	**(19.0)**	**3.6**
	551.7	**(77.8)**	**473.9**

2020 Trade receivables	Total £m	Provided for £m	Net £m
Billed in advance	364.6	–	364.6
Under one month	29.0	(2.9)	26.1
Between one and six months	38.5	(3.7)	34.8
Between six months and one year	31.4	(3.4)	28.0
Between one and two years	41.4	(28.9)	12.5
Between two and three years	27.0	(21.3)	5.7
Over three years	26.5	(21.6)	4.9
	558.4	(81.8)	476.6

NOTES TO THE FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES CONTINUED

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

	2021 **£m**	2020 £m
At 1 April	**81.8**	78.7
Charge to Income Statement	**32.4**	24.4
Receivables written off during the year as uncollectable	**(36.4)**	(21.3)
At 31 March	**77.8**	81.8

During the year the Group has written off £36.4 million of debt which had been provided for in full (2020: £21.3 million).

The total charge to the income statement of £33.4 million (2020: £25.2 million) includes the estimated impact on collections of the Covid-19 pandemic and the bad debt element of collection charges under arrangements with third parties who collect debt on the Group's behalf. For the year ended 31 March 2021, the impact of the pandemic on the bad debt charge has been disclosed separately as part of the exceptional item (see note 3).

	2021 **£m**	2020 £m
Core bad debt charge	**19.9**	20.4
COVID-19 impact	**12.5**	4.0
Third party	**1.0**	0.8
Total	**33.4**	25.2

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, with the exception of the Covid-19-related element which in the current year has been disclosed as an exceptional item owing to its size and nature.

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 and, as at 31 March 2021, the estimated adverse effect on collections of the Covid-19 pandemic. The Group holds around 7,000 charging orders as collateral against £12 million of debt (2020: 7,000 orders against £12 million of debt).

2021	**Historical default rates %**	**Forward-looking adjustment %**	**Adjustment total %**	**Historical impairment £m**	**Forward-looking adjustment £m**	**Total impairment £m**
Billed in advance	–	–	–	–	–	–
Under one month	9.0%	1.0%	10.0%	2.3	0.2	2.5
Between one and six months	8.4%	0.8%	9.2%	3.3	0.3	3.6
Between six months and one year	10.1%	0.8%	10.9%	2.7	0.2	2.9
Between one and two years	76.0%	(5.3%)	70.7%	30.5	(2.1)	28.4
Between two and three years	78.0%	(6.2%)	71.8%	23.2	(1.8)	21.4
Over three years	78.1%	6.0%	84.1%	17.7	1.3	19.0
				79.7	(1.9)	77.8

11. TRADE AND OTHER RECEIVABLES CONTINUED

2020	Historical default rates %	Forward-looking adjustment %	Adjustment total %	Historical impairment £m	Forward-looking adjustment £m	Total impairment £m
Billed in advance	–	–	–	–	–	–
Under one month	9.2%	0.8%	10.0%	2.6	0.2	2.8
Between one and six months	8.6%	0.9%	9.5%	3.3	0.4	3.7
Between six months and one year	10.1%	0.7%	10.8%	3.2	0.2	3.4
Between one and two years	76.4%	(6.6%)	69.8%	31.6	(2.7)	28.9
Between two and three years	86.9%	(7.9%)	79.0%	23.5	(2.1)	21.4
Over three years	77.7%	3.9%	81.6%	20.6	1.0	21.6
				84.8	(3.0)	81.8

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 2021 is £5.4 million, being a revenue provision of 7% against a gross balance of £77.1 million (2020: 7% and £5.4 million).

The parent company's loan to Group undertakings of £21.6 million (2020: £21.6 million) represents a loan to a wholly-owned subsidiary, Welsh Water Holdings Limited. The loan attracts interest at a rate of 5% and is repayable on demand. Interest accruing on the loan is included in trade and other receivables.

12. CASH AND CASH EQUIVALENTS

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Cash at bank and in hand	**97.9**	0.1	**–**	–
Short-term deposits	**123.0**	667.3	**8.7**	8.7
	220.9	667.4	**8.7**	8.7

The effective interest rate on short-term deposits as at 31 March 2021 was 0.1% (2020: 0.7%) and these deposits had an average maturity of 12 days (2020: 23 days). All cash and cash equivalents were held in sterling.

13. TRADE AND OTHER PAYABLES

Group **Current**	**2021 £m**	2020 £m
Trade payables	**46.6**	52.4
Capital payables	**18.0**	46.3
Social security and other taxes	**3.5**	5.7
Accruals and deferred income	**472.7**	458.3
	540.8	562.7

Group **Non-current**	**2021 £m**	2020 £m
Deferred income	**401.9**	314.4

NOTES TO THE FINANCIAL STATEMENTS

14. OTHER FINANCIAL LIABILITIES — BORROWINGS

Group **Current**	**2021** **£m**	2020 £m
Interest accruals	**8.3**	11.1
Bonds	**(0.6)**	325.4
Term loans	**53.4**	48.7
Lease liabilities	**17.2**	27.6
	78.3	412.8

Group **Non-current**	**2021** **£m**	2020 £m
Interest accruals	**39.9**	37.4
Bonds	**2,620.9**	2,599.0
Term loans	**621.8**	673.2
Lease liabilities	**394.0**	396.5
	3,676.6	3,706.1

The parent company has no borrowings.

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the Group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors.

The obligations of DCC are guaranteed by the Company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

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

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

The Group's Class A Bonds of £1,052 million (2020: £1,042 million) benefit from a guarantee from Assured Guaranty (Europe) Plc. Assured Guaranty's credit rating is graded as A2/AA by Moody's and Standard & Poor's respectively and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher of the financial guarantor's rating or the underlying rating of these bonds, of A3/A-/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 £1,378 million (2020: £1,691 million).

As at 31 March 2021, the Group had an issue of £200 million of Class C (Junior) bonds. Subsequent to the balance sheet date, the Group has issued a further £300 million of Class C bonds. Formal issuance and drawdown took place on 9 April 2021 (see also note 28). The Class C bonds are rated Baa2/BBB/BBB+ by Moody's, Standard & Poor's and Fitch respectively.

15. OTHER FINANCIAL ASSETS AND LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

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

Fair values **Group — 2021**	**Assets** **£m**	**Liabilities** **£m**
Current		
Index-linked swaps	**28.1**	**(28.6)**
Interest rate swaps	**–**	**(10.6)**
Power hedging swaps	**4.5**	**–**
	32.6	**(39.2)**
Non-current		
Index-linked swaps	**–**	**(403.9)**
Interest rate swaps	**–**	**(74.1)**
Power hedging swaps	**3.3**	**–**
	3.3	**(478.0)**
Total	**35.9**	**(517.2)**

Fair values Group — 2020	Assets £m	Liabilities £m
Current		
Index-linked swaps	36.1	(16.9)
Interest rate swaps	–	(10.0)
Power hedging swaps	0.1	(1.4)
	36.2	(28.3)
Non-current		
Index-linked swaps	–	(392.3)
Interest rate swaps	–	(89.7)
Power hedging swaps	0.2	(0.7)
	0.2	(482.7)
Total	36.4	(511.0)

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 2021 an interest rate swap fixed the interest rate on £192 million (2020: £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 £379 million (2020: £380 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 2021 was £391 million (2020: £394 million), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2021. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

NOTES TO THE FINANCIAL STATEMENTS

15. OTHER FINANCIAL ASSETS AND LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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

Notional amount	£391 million amortising (2020: £394 million amortising)
Average swap maturity	15 years (2020: 16 years)
Average interest rate	1.42% fixed plus RPI (2020: 1.43% fixed plus RPI)

BOND SWAPS

The index-linked swaps have the effect of index-linking the interest rate on £950 million of fixed rate bonds by reference to the RPI (2020: £950 million).

The principal terms are as follows:

Indexed notional amount	£1,014 million (2020: £1,001 million)
Swap maturity	18 years (2020: 19 years)
Interest rate	0.15% indexed by RPI (2020: 0.14% indexed by RPI)

16. FINANCING RISK MANAGEMENT

The policies of the Group in respect of financing risk management are included in the accounting policies note on page 174. 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:

	2021	2020
Assets:		
Cash and cash equivalents	0.1%	0.7%
Liabilities:		
Bonds	3.2%	3.6%
Term loans	0.5%	1.0%
Other unsecured loans	2.9%	3.2%
Lease liabilities	1.2%	0.7%

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 — 2021	< 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	220.9	–	–	–	220.9
Trade and other receivables	571.5	–	–	–	571.5
	792.4	–	–	–	792.4
Liabilities:					
Bonds	0.7	0.8	422.8	2,209.0	2,633.3
Term loans	53.4	52.6	223.1	346.0	675.1
Other unsecured loans	–	–	0.1	0.1	0.2
Lease liabilities	17.2	1.0	233.6	159.4	411.2
Trade and other payables	540.8	9.1	27.3	365.5	942.7
Future interest payable	107.5	108.3	323.4	652.5	1,191.7
	719.6	171.8	1,230.3	3,732.5	5,854.2

16. FINANCING RISK MANAGEMENT CONTINUED

Group — 2020	Within 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	667.4	–	–	–	667.4
Trade and other receivables	577.3	–	–	–	577.3
	1,247.7	–	–	–	1,247.7
Liabilities:					
Bonds	325.7	0.7	2.3	2,609.1	2,937.8
Term loans	48.6	53.3	191.5	428.2	721.6
Other unsecured loans	0.1	–	–	0.2	0.3
Lease liabilities	27.6	16.9	203.6	176.0	424.1
Trade and other payables	562.7	7.2	21.6	285.6	877.1
Future interest payable	136.5	114.7	343.4	782.2	1,376.8
	1,101.2	192.8	762.4	4,281.3	6,337.7

The minimum lease payments under leases fall due as follows:

	2021 £m	2020 £m
Gross lease liabilities		
Within one year	**34.6**	37.0
Between two and five years	**252.3**	54.0
After five years	**169.4**	421.6
	456.3	512.6
Future interest	**(45.1)**	(88.5)
Net lease liabilities	**411.2**	424.1
Net lease liabilities are repayable as follows:		
Within one year (note 14)	**17.2**	27.6
Between two and five years	**234.6**	220.5
After five years	**159.4**	176.0
Total over one year (note 14)	**394.0**	396.5

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.

	2021		2020	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds	**2,633.3**	**3,426.4**	2,937.8	3,742.0

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

NOTES TO THE FINANCIAL STATEMENTS

16. FINANCING RISK MANAGEMENT CONTINUED

D) BORROWING FACILITIES

As at 31 March 2021, the Group had available undrawn committed borrowing facilities of £200 million expiring as set out below, in respect of which all conditions precedent had been met (2020: £170 million).

	2021 **£m**	2020 £m
Expiring in less than one year:		
– revolving credit facilities	**–**	170
Expiring in more than one year:		
– revolving credit facilities	**200**	–
	200	170

During the year the Group renewed all four of its revolving credit facilities and increased three of these by £10 million each, such that available commitment is now £200 million (2020: £170 million). The facilities are all available for two years with a one-year extension option. There is also a £10 million overdraft facility renewable on an annual basis.

As at 31 March 2021 there was also a special liquidity facility of £135 million (2020: £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. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is a five-year evergreen facility provided by an insurer.

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

E) CAPITAL RISK MANAGEMENT

Gearing ratios	**2021** **£m**	2020 £m
Total borrowings	**(3,755)**	(4,119)
Less: cash and cash equivalents	**221**	667
Net debt	**(3,534)**	(3,452)
Regulatory Capital Value (RCV)	**6,010**	5,906
Total capital	**2,476**	2,454
Less: unamortised bond costs and swap indexation	**(77)**	(64)
Total capital per bond covenants	**2,399**	2,390
Gearing ratio	**60%**	60%

As set out on page 175 the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

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

17. PROVISIONS

Group — 2021	**Restructuring provision £m**	**Uninsured loss provision £m**	**Other provisions £m**	**Total £m**
At 1 April 2020	10.0	3.8	0.5	14.3
Charged to Income Statement	4.1	2.5	–	6.6
Utilised in year	(3.6)	(1.7)	–	(5.3)
At 31 March 2021	10.5	4.6	0.5	15.6
Split as amounts to be utilised:				
Within one year	6.8	1.4	0.3	8.5
After more than one year	3.7	3.2	0.2	7.1
At 31 March 2021	10.5	4.6	0.5	15.6

Group — 2020	Restructuring provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2019	1.6	3.5	1.5	6.6
Charged to Income Statement	10.0	1.8	–	11.8
Utilised in year	(1.6)	(1.5)	(1.0)	(4.1)
At 31 March 2020	10.0	3.8	0.5	14.3
Split as amounts to be utilised:				
Within one year	5.0	1.3	0.1	6.4
After more than one year	5.0	2.5	0.4	7.9
At 31 March 2019	10.0	3.8	0.5	14.3

The parent Company had no provisions at 31 March 2021 (2020: none).

RESTRUCTURING PROVISION

This provides for the cost of a reduction in the headcount by around 200 over the period 2020 to 2025 (see details of exceptional items in note 3). For the year to 31 March 2021, an additional restructuring charge of £4.1 million was incurred as a result of reassessing the level of provision necessary.

UNINSURED LOSS PROVISION

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

OTHER PROVISIONS

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

NOTES TO 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	**2021** **£m**	2020 £m
Operating profit	7.2	30.1
Adjustments for:		
Depreciation and amortisation	334.2	316.2
Changes in working capital:		
Decrease/(increase) in trade and other receivables	4.5	(1.9)
Increase in inventories	(0.4)	–
Increase in trade and other payables	3.3	0.5
Pension contributions above service cost	–	(11.9)
(Decrease)/increase in provisions	(0.4)	7.7
	7.0	(5.6)
Cash generated from operations	348.4	340.7

Pension contributions above service cost represent DCWW Pension Scheme deficit recovery costs paid as agreed between the Dŵr Cymru Cyfyngedig and the scheme's trustees.

B) INTEREST PAID

Group	**2021** **£m**	2020 £m
Interest payable per Income Statement	126.1	164.3
Less non-cash items:		
Indexation on index-linked bonds	(21.2)	(36.3)
Indexation on index-linked debt	(3.2)	(6.1)
Amortisation of bond issue costs	(1.3)	(0.6)
Interest charge on pension scheme liabilities	(2.0)	(2.2)
Amortisation of bond issue premium	0.8	0.7
Effect of capitalisation under IAS 23	11.3	14.4
Decrease in accruals	0.2	2.5
	(15.4)	(27.6)
Interest paid	110.7	136.7

19. ANALYSIS AND RECONCILIATION OF NET (DEBT)/FUNDS

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

A) NET (DEBT)/FUNDS AT THE BALANCE SHEET DATE MAY BE ANALYSED AS:

	Group		Company	
	2021 **£m**	2020 £m	**2021** **£m**	2020 £m
Cash and cash equivalents	**220.9**	667.4	**8.7**	8.7
Debt due after one year	**(3,242.7)**	(3,272.2)	**–**	–
Debt due within one year	**(52.8)**	(374.1)	**–**	–
Lease liabilities	**(411.2)**	(424.1)	**–**	–
Accrued interest	**(48.2)**	(48.5)	**3.1**	2.3
	(3,754.9)	(4,118.9)	**3.1**	2.3
Net (debt)/funds	**(3,534.0)**	(3,451.5)	**11.8**	11.0

B) THE MOVEMENT IN NET (DEBT)/FUNDS DURING THE YEAR MAY BE SUMMARISED AS:

	Group		Company	
	2021 **£m**	2020 £m	**2021** **£m**	2020 £m
Net (debt)/funds at 1 April	**(3,451.5)**	(3,264.6)	**10.9**	9.9
Movement in net cash	**(446.5)**	166.3	**–**	0.1
Movement in debt arising from cash flows	**388.1**	(312.2)	**–**	–
Movement in net (debt)/funds arising from cash flows	**(58.4)**	(145.9)	**–**	0.1
Movement in accrued interest	**0.3**	2.5	**0.9**	0.9
Indexation of index-linked debt	**(24.4)**	(42.4)	**–**	–
Other non-cash movements	**–**	(1.1)	**–**	–
Movement in net (debt)/funds	**(82.5)**	(186.9)	**0.9**	0.9
Net (debt)/funds at 31 March	**(3,534.0)**	(3,451.5)	**11.8**	10.9

Non-cash movements relate to the recognition of lease liabilities under IFRS 16.

20. EMPLOYEES AND DIRECTORS

STAFF COSTS FOR THE GROUP DURING THE YEAR

	2021 **£m**	2020 £m
Wages and salaries	**140.1**	138.5
Social security costs	**15.1**	14.1
Other pension costs	**13.7**	13.2
	168.9	165.8

Of the above, £74.6 million (2020: £69.6 million) has been capitalised, being the investment cost of employees' work on the capital programme. Exceptional items amounting to £0.8 million have been disclosed separately on the face of the income statement (note 3).

	2021 **Number**	2020 Number
Average number of people employed by the Group (including Executive Directors)	**3,607**	3,525

For further information see the Remuneration Report on page 130.

No remuneration was paid or is payable by the parent company. The Directors are employed by other companies in the Group and consider their duties to this company incidental to their other activities within the Group. The parent company had no employees during the year other than the Directors.

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION COMMITMENTS

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

The DCWW Pension Scheme was closed to new members from 31 December 2005. A new defined contribution scheme, the DCWW Group Personal Pension Plan, was introduced from 1 January 2006.

EFRBS

During 2011, the Company 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 2021, there were two Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

RISKS

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

- Asset volatility:

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

- Movement in bond yields:

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

- Inflation risk:

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

- Life expectancy

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

DEFINED BENEFIT SCHEME

A full actuarial valuation of the scheme was undertaken as at 31 March 2019 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 2021 and the principal assumptions made by the actuary were:

	2021	2020
Discount rate	**2.0%**	2.4%
RPI Inflation assumption	**3.0%**	2.6%
Rate of increase in pensionable salaries	**3.0%**	2.6%
Rate of increase in pensions in payment	**2.9%**	2.6%
Post retirement mortality (life expectancy)		
– Current pensioners aged 65 – males	**86.7 years**	86.7 years
– Current pensioners aged 65 – females	**89.0 years**	88.9 years
– Future pensioners aged 65 (currently aged 45) – males	**87.8 years**	87.7 years
– Future pensioners aged 65 (currently aged 45) – females	**90.2 years**	90.1 years

The mortality assumptions are the S3PxA base tables with future improvements in line with the CM1 2018 projection model with a long-term trend rate of 1% p.a.

A change in accounting estimate this year pertains to the inflation risk premium (IRP) which has been set at 0.6%, compared with 0.4% in the prior year. The impact of the change in the IRP applied represents multiple significant areas of judgment, with the change expected to have an impact of reducing the obligation by circa £19 million.

21. PENSION COMMITMENTS CONTINUED

Changes in the defined benefit obligation are as follows:

	2021 £m	2020 £m
At 1 April	470.3	488.4
Current service cost	0.4	0.3
Interest expense	11.1	12.4
Remeasurement: loss/(gain) from change in financial assumptions	61.4	(12.6)
Benefits paid	(14.3)	(18.2)
At 31 March	528.9	470.3

Changes in the fair value plan assets are as follows:

	2021 £m	2020 £m
At 1 April	387.6	396.9
Interest income	9.1	10.2
Actuarial gains/(losses)	60.1	(13.5)
Contributions	0.2	12.2
Benefits paid	(14.3)	(18.2)
At 31 March	442.7	387.6

Scheme assets	2021 £m	2020 £m
Cash	16.7	24.9
Equity and Bonds	326.2	201.5
Absolute return	–	80.3
Property	–	14.5
Other	99.8	66.4
Total assets	442.7	387.6

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 £100 million are Level 3 financial assets (2020: £147 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.

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

	2021 £m	2020 £m
Income statement:		
Service costs	0.3	0.3
Interest costs	2.0	2.2
Total charged to the income statement	2.3	2.5
Statement of comprehensive income:		
Actuarial gain/(loss) on plan assets	60.1	(13.5)
Actuarial (loss)/gain on defined benefit obligation	(61.4)	12.6
Total charged to the statement of comprehensive income	(1.3)	(0.9)

NOTES TO THE FINANCIAL STATEMENTS

21. PENSION COMMITMENTS CONTINUED

	2021 £m	2020 £m
Present value of funded obligations	**(528.9)**	(470.3)
Fair value of plan assets	**442.7**	387.6
	(86.2)	(82.7)
EFRBS unfunded liability	**(3.7)**	(4.7)
Net defined benefit liability recognised in the balance sheet	**(89.9)**	(87.4)

There were no special contributions paid in the year to 31 March 2021 (2020: £11.9 million).

	Change in assumption	**Movement in liabilities**
Discount rate	0.10%	£9.8m
Price inflation	0.10%	£9.4m
Life expectancy	1 year	£16.8m

The above sensitivity analysis is based on isolated changes in each assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between the movements in different assumptions.

EFFECT ON FUTURE CASH FLOWS

The level of contributions is reviewed at each triennial valuation. The next valuation is due as at 31 March 2022. The Company must reach agreement with the Trustee (based on actuarial advice) within 15 months of the valuation date.

Under the current Schedule of Contributions, no deficit recovery contributions are expected to be paid for the year-ending 31 March 2022. Future service contributions (consisting of amounts payable by members and the Company) will be in the region of £175,000.

The duration of the Scheme's liabilities is approximately 19 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 Statement of Investment Principles. Day-to-day decisions around asset selection have been delegated to BlackRock as their fiduciary investment manager.

22. LESSOR

	2021 £m	2020 £m
Operating lease		
Lease income	**0.6**	–

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 11 years, with the total undiscounted current minimum lease receipts amounting to £1.1 million, recognised evenly over the remaining term.

23. CAPITAL AND OTHER FINANCIAL COMMITMENTS

The Group's business plan at 31 March 2021 forecasts net capital expenditure and infrastructure renewals expenditure of £367 million (2020: £366 million) during the next financial year. While only a portion of this amount has been formally contracted for, the Group is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

24. RELATED PARTY TRANSACTIONS

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

The parent company issued an intercompany loan to Welsh Water Holdings Limited, a wholly-owned subsidiary, during the year ended 31 March 2018. As at 31 March 2021, the balance on this loan stood at £21,553,698 (2020: £21,553,698). Interest is chargeable at a fixed rate of 5% and £1,077,685 was charged during the year (2020: £1,080,637). As at 31 March 2021 accrued interest receivable relating to this totalled £3,522,201 (2020: £2,444,516).

25. STATUS OF THE COMPANY

The Company is limited by guarantee and does not have any share capital. In the event of the Company being wound up, the liability of the Members is limited to £1 each.

26. ELAN VALLEY TRUST FUND

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

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

The assets of the fund are not included in these financial statements. As at 31 March 2021 the market value of the trust fund was £116 million (2020: £119 million).

Interest receivable includes £3.0 million (2020: £3.1 million) in respect of distributions from the Elan Valley Trust Fund.

27. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales, company number 09917809, registered office Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT. The largest and smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig.

28. POST BALANCE SHEET EVENTS

Shortly after the financial year end, we successfully issued £300 million in new bonds, which received a positive response from investors.

In addition, on 6 April 2021 the Group entered into swap contracts, commencing on 9 April, effectively hedging the new debt issuance to the Retail Prices Index (RPI), with RPI indexation accreting on the balance sheet over the term.

The combined effect of these instruments generates a cash interest rate of -1.149% per annum until maturity in 2034 when the RPI-indexed principal (notional £300 million x RPI) is repayable in full.

APPENDICES

THE PAGES WHICH FOLLOW DEFINE TERMS USED THROUGHOUT THIS ANNUAL REPORT AND ACCOUNTS AND EXPLAIN THE MEASURES OF SUCCESS AGAINST WHICH WE TRACK OUR PERFORMANCE

GLOSSARY

AMP6	AMP6 ran from 2015–2020. AMP7 will run from 2020–2025.
Anaerobic digestion	A process by which organic material is broken down by bacteria and other micro-organisms to generate renewable energy.
Assets	These include infrastructure such as water mains and sewers, dams and reservoirs, water and sewage treatment works, pumping stations, company laboratories, depots and workshops.
AVPS	Annual Variable Pay Scheme — a performance-related element of emoluments.
Bacteriological failures	The drinking water supplied to customers is sampled and analysed against a range of chemical and bacteriological parameters. If a sample shows a bacteriological parameter that exceeds the limit specified in the regulations, it is deemed a bacteriological failure.
Catchment	An area of land through which water drains into a body of water (such as a river or reservoir).
Combined storm overflow	Combined storm overflow is a system for sewage and rain water runoff.
CSO	Combined Sewer Overflows act as relief valves which prevent the overloading of sewers which could otherwise lead to flooding of properties and sewage treatment works.
Company limited by guarantee	A private company that does not have shareholders or share capital.
CPNI	Centre for the Protection of National Infrastructure.
CCWater	Consumer Council for Water.
C-MeX	The customer measure of experience (C-MeX) is a measure of customer satisfaction. A company's C-MeX score is calculated as the weighted average of customer satisfaction (CSAT) scores from customer service (CS) and customer experience (CE) surveys.
Credit rating	Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing.
Customer Reserves	Customer Reserves is the difference between the RCV and net debt and is therefore a measure of the value created by the business for customers. Some of that value can be used for investment in the business and rebates to customers. We aim to maintain net debt at around 60% of the RCV with retained Customer Reserves as the remaining 40%.
Discharge permits	Legal agreements issued by the environmental regulator relating to the amount, quality and frequency of wastewater that can be returned to the environment.
D-MeX	The customer service measures for developer services (new connections) customers, developed by Ofwat for AMP7. See C-Mex definition above.
DWI	Drinking Water Inspectorate.
Drinking Water Safety Plan	A proactive method of assessing risk to drinking water quality, which better protects public health.
Drought Plan	Statutory plan produced by a water company that details the actions to be taken to manage the supply of water in a drought.
Effluent	Water that flows from a sewage treatment plant after it has been treated.
Environment Agency (EA)	An executive, non-departmental Government body that has a statutory duty to protect and enhance the environment in England.
Financeability	The ability of appointed water companies to finance their functions through debt, equity or retained earnings.
Gearing	Net debt expressed as a percentage of regulatory capital value.
Glas Cymru	Glas Cymru is the generic name used to refer to the Group holding company. Glas Cymru Cyfyngedig was formed in 2000 to own, finance, and manage Dŵr Cymru Welsh Water. During 2015–16 Glas Cymru Cyfyngedig was re-registered as Glas Cymru Anghyfyngedig and Glas Cymru Holdings Cyfyngedig was created to be the holding company for the Glas Cymru Group.

Groundwater	Water that can be found in the saturated zone of the soil.
Group	Glas Cymru and all its subsidiaries.
ICT	Information and communications technology.
IEAP	Independent Environmental Advisory Panel is an advisory panel to Welsh Water, consisting of representatives from front-line environmental organisations in Wales and England, and leading academics in specialist areas.
Leakage	Water lost between the treatment works and the customer's home or business.
Let's Stop the Block	Behavioural change campaign being undertaken by Welsh Water which asks customers to help reduce the number of sewer blockages.
LTVPS	Long-term Variable Pay Scheme. A performance-related element of emoluments.
'Look-up' Compliance	Where a wastewater treatment works fails to meet the consented parameters set by the NRW or EA for less than 95% of the time.
Mean Zonal Compliance (MZC)	Mean Zonal Compliance is a measure of compliance in all the water quality zones for 39 key chemical and bacteriological parameters derived from the statutory monitoring programme of samples taken from customers' taps.
Megalitres (ML)	One megalitre is equal to 1,000 cubic metres or one million litres. A standard Olympic-size swimming pool contains 2.5 megalitres of water.
Natural Resources Wales (NRW)	Welsh Government-sponsored body whose purpose it is to ensure that the natural resources of Wales are sustainably maintained, enhanced and used.
Non-Executive Directors	Members of Glas Cymru's Board. Non-Executive Directors are not responsible for the day-to-day running but challenge management and oversee the running of the Group. See page 117 for further details of their role.
ODI	Outcome Delivery Incentive. This is the mechanism for rewards and penalties which underpins the performance measures set out in our Final Determination Ofwat PR14 and PR19 business plans.
Ofwat	The economic regulator of the water sector in England and Wales.
Operating costs	Total operating expenditure of the business, net of any operating income, primarily any profits or losses on the disposal of fixed assets.
Pollution Incidents	An accidental or deliberate release of contaminants such as oils, fuels and chemicals that can be harmful to human health and the environment.
PR19	Ofwat's Price Review process 2019, the five-year regulatory price-setting prices for AMP7 (2020–2025), culminating in the Final Determination of prices issued to companies in December 2019.
PR24	Ofwat's forthcoming Price Review process 2024, which will culminate in a Determination in December 2024, to set prices for AMP8 (2025–2030).
Pumping station	Used to pump water or sewerage from one place to another.
Quality and Environment Committee (QEC)	Board-level Committee in Glas Cymru which addresses performance and operational risk issues across the Company.
RainScape	Glas Cymru's approach to managing surface water and overloaded sewers (sustainable urban drainage systems).
Real terms	The change in a financial number after removing the effect of inflation.
Regulatory Capital Value (RCV)	The asset value of Dŵr Cymru, determined by Ofwat, on which our investment returns (or Regulatory Returns) is allowed to be made. This is, in effect, a proxy for the economic value in use of the appointed business of Dŵr Cymru Cyfyngedig.
Reservoir	A natural or artificial lake where water is collected and stored until needed.
Return of Value	Payments made for the benefit of our customers from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company.

GLOSSARY

Rising main	A pumped pipeline that carries wastewater.
Scorecard	A statistical record used by Welsh Water to measure achievement or progress towards a particular goal.
Security and Emergency Measures Directive (SEMD)	Issued by Welsh Government and DEFRA to the water sector to provide guidance on how to respond to major incidents.
Service reservoir	A tank containing drinking water that is usually sited within or near to a water distribution system.
Serviceability	The capability of a system of assets to deliver an expected level of service to consumers and to the environment now and into the future.
Sewer	An underground pipe that takes household and non-household wastewater and surface water away from properties for treatment and disposal.
Sewer flooding	Occurs when wastewater escapes from sewer pipes through a manhole cover or a drain, or by backing up through toilets.
Safety Takes Every Person (STEP)	Behavioural safety training which emphasises that each individual has responsibility for Health and Safety issues.
SSSI	Site of Special Scientific Interest
Storm tank	A tank into which, in wet weather, stormwater and wastewater is stored until the wastewater treatment works can treat it.
Surface water	Run-off from rainwater that falls on to customers' properties (such as roofs, paths and driveways).
Surface water drainage	The removal of rainwater, snow or melted ice from exterior areas of a property (such as roofs and driveways) often to a surface water sewer or combined sewer.
Sustainable Urban Drainage (SUDS)	A sustainable drainage system is designed to reduce the potential impact of new and existing developments with respect to surface water drainage discharges.
Totex	An Ofwat abbreviation for total expenditure. The total sum of capital expenditure and operational expenditure.
Trunk main	A main through which water is fed into a water distribution system. A trunk main will often run from a water treatment works to a service reservoir.
UKRI	UK Research and Innovation, a research funding body working combining seven former Research Councils.
UKWIR	UK Water Industry Research, a body set up by the water industry to support research and shape the industry's research agenda.
Wastewater	Waste matter from household or non-household properties that is carried away from properties in sewers or drains.
Wastewater treatment works (WWTW)	Wastewater treatment works are designed to remove biological or chemical waste products from water before it is returned to water sources.
Water main	A large pipe that carries treated water to households.
Water Resource Management Plan (WRMP)	This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years.
Water treatment works (WTW)	Water treatment plants produce drinking water for public consumption or industrial water for manufacturing or other business operations.
Zonal Studies	Water network improvement programmes to reduce interruptions and increase customer acceptability of water.

PR19 PERFORMANCE COMMITMENTS: DEFINITIONS

Wt1	Water quality compliance (CRI)	A CRI score is calculated for every individual compliance failure at water supply zones, supply points and treatment works, and service reservoirs. The annual CRI for a company, for any given calendar year, is the sum of the individual CRI scores for every compliance failure reported during the year.
Wt2	Water Supply Interruptions	The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions). It is calculated as the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more.
Wt3	Acceptability of drinking water	The number of times the company is contacted by consumers due to the taste and odour of drinking water, or due to drinking water not being clear, reported per 1,000 population.
Wt4	Mains Repairs	This includes all physical repair work to mains from which water is lost. It is reported as the number of mains repairs per thousand kilometres of the entire water main network (excluding communication and supply pipes).
Wt5	Unplanned outage %	This measure is a means of assessing asset health (primarily for non-infrastructure – above ground assets), for water abstraction and water treatment activities. It is defined as the annualised unavailable flow, based on the peak week production capacity. This measure is proportionate to both the frequency of asset failure as well as the criticality and scale of the assets that are causing an outage.
En1	Treatment works compliance %	For our water and wastewater treatment works there is a permit which regulates the quality of wastewater the Company is allowed to discharge into rivers and coastal waters, which is regulated by Natural Resources Wales. The measure is the % compliance against the discharge permits.
En3	Pollution incidents (Per 10,000km of sewer)	Reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency. Category 1 - the most severe and have a major or serious impact on the environment, people or property. Category 2 - significant impact or effect on the environment, people or property. Category 3 - minor or minimal impact on the environment, people or property.
En4	Leakage (% reduction) – 3-year average	Reduce our leakage levels – The percentage reduction of three-year average leakage in megalitres per day (Ml/d) from the 2019/20 starting baseline.
En5	Per Capita Consumption (% reduction) – 3-year average	Reduce our per capita consumption (PCC) - Annual average PCC is defined as the sum of measured household consumption and unmeasured household consumption divided by the total household population. This measure is reported as a % reduction of our three-year average PCC.
Sv1	C-MeX	C-MeX is a customer measure of experience and customer satisfaction. It is comprised of two survey elements: 1. Customer Experience Survey – a customer satisfaction survey amongst a random sample of the water company's customers; and 2. Customer Service Survey – a customer satisfaction survey amongst a random sample of those customers who have contacted their water company. The scores of each of the two surveys are weighted equally to produce the combined C-MeX measure.

PR19 PERFORMANCE COMMITMENTS: DEFINITIONS

Sv2	D-MeX	D-MeX is a measure of customer satisfaction for Developer Services. A D-MeX score is calculated from two components that contribute equally: • qualitative D-MeX score, based on the ratings provided by developer services customers who transacted with the company throughout the reporting year to a customer satisfaction survey; and • quantitative D-MeX score, based on the company's performance against a set of selected Water UK performance metrics throughout the reporting year.
Sv4	Business customer satisfaction	This performance commitment measures the average customer score out of five from four quarterly business customer satisfaction surveys. The Company will undertake a survey of 250 business customers per quarter (1,000 in total per year). It will survey a sample from all customers, not just those who have contacted the company.
Sv5	Priority Services for Customers in Vulnerable Circumstance	We provide special assistance to those customers in vulnerable circumstances who are registered on our Priority Services Register (PSR). This measure reports on the number of households on the Company's PSR as a proportion of all households in the Company's region.
Rt1	Internal sewer flooding (per 10,000 sewer connections)	The measure is calculated as the number of internal sewer flooding incidents normalised per 10,000 sewer connections including sewer flooding due to severe weather events.
Rt3	Sewer collapses (Per 1,000 km of sewers)	A sewer collapse is where a structural failure has occurred to the pipe that results in a service impact to a customer or the environment and where action is taken to replace or repair the pipe to reinstate normal service. This is reported as the number of sewer collapses per 1,000 kilometres of all sewers causing an impact on service to customers or the environment.
Rt4	Total Complaints	The total complaints by household customers received by the Company per 10,000 connections. It includes the combined total of unwanted contacts (i.e. telephone complaints), written complaints (letter and email), and contacts via new contact channels (such as social media or web chat).
Bl3	Company level of bad debt	The Company level of bad debt is a measure of the total unpaid water and wastewater bills that are deemed uncollectable as a proportion of the total revenue billed in each reporting year.
Co1	Reportable injuries	The number of individual injuries reported to the Health and Safety Executive under RIDDOR per annum.

OUR CORPORATE STRUCTURE

Glas Cymru Holdings Cyfyngedig (Glas Cymru) is a company limited by guarantee formed on 15 December 2015. This company was created as part of a corporate restructuring, which took effect on 1 March 2016, to be the new holding company for the Group. The creation of this new ultimate holding company enabled the creation of new subsidiaries which could undertake commercial investments outside the Common Terms Agreement which governs our whole business securitisation over the regulated business under Glas Cymru Anghyfyngedig.

Dŵr Cymru Cyfyngedig (referred to as Welsh Water throughout this report) is a wholly-owned subsidiary of Glas Cymru and is the Group's principal trading company. Its principal activity is the supply of water and the treatment and disposal of wastewater, under an Instrument of Appointment (Licence) made by the Secretary of State for Wales under the Water Act 1989.

Glas Cymru Anghyfyngedig is the former parent company of the Glas Cymru Group.

Glas Cymru (Securities) Cyfyngedig is the holding company for Dŵr Cymru (Holdings) Limited and its subsidiaries.

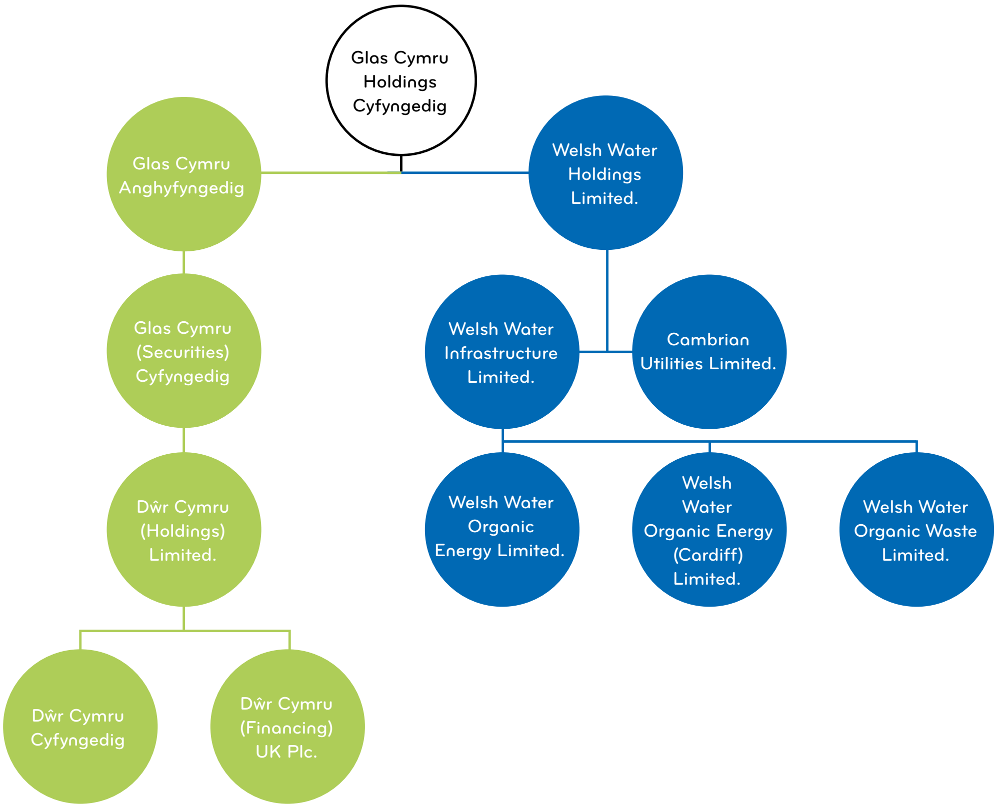
Dŵr Cymru (Holdings) Limited is the intermediate holding company of Dŵr Cymru Cyfyngedig, Dŵr Cymru (Financing) UK Plc and Dŵr Cymru (Financing) Limited.

Dŵr Cymru (Financing) UK Plc is the issuer company for the Group's bonds, which are listed on the Luxembourg Bourse. It was incorporated in April 2019 for this purpose and took over all the existing debt instruments from Dŵr Cymru (Financing) Limited in August 2019. The company on-lends the proceeds of any bond issues to Dŵr Cymru Cyfyngedig.

Dŵr Cymru (Financing) Limited (liquidated on 22 December 2020 and therefore not shown on the current structure below) was the former "issuer" company for the Group's bonds. In August 2019, all the debt held in this company was transferred to Dŵr Cymru (Financing) UK Plc, as the new issuer of our bonds. Dŵr Cymru (Financing) Limited was established prior to the acquisition of Welsh Water by Glas Cymru in 2001 and was a company dual registered in the Cayman Islands and in England and Wales. Since 2001 it had been managed, controlled and was resident in the UK for tax purposes.

Welsh Water Holdings Limited is a subsidiary of Glas Cymru Holdings Cyfyngedig and is the intermediate holding company for companies outside the Common Terms Agreement:

- **Cambrian Utilities Limited** was established to offer competitive retail services to business customers; currently dormant while we wait to see how the competitive market for retail business customers develops in England and Wales.
- **Welsh Water Infrastructure Limited** pursues commercial projects.
- **Welsh Water Organic Energy Limited and Welsh Water Organic Energy (Cardiff) Limited** – former Kelda Group companies -these subsidiaries were purchased in December 2017 and provide anaerobic food digestion and composting services under a contract to Cardiff and Vale of Glamorgan Local Authorities, supplying electricity from the digestion process to our Cardiff Wastewater treatment plant.
- **Welsh Water Organic Waste Limited** was established in July 2018 to provide waste disposal services for trade effluent customers.



NOTES

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glas
Glas Cymru Holdings Cyf

Dŵr Cymru
Welsh Water

Glas Cymru Holdings Cyfyngedig
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