GLAS CYMRU

PRELIMINARY RESULTS

2021

Dŵr Cymru Welsh Water

COMPANY NUMBER: 09917809

CONTENTS

FOREWORD TO THE PRELIMINARY RESULTS ANNOUNCEMENT

BASIS OF PREPARATION

The following announcement of preliminary results includes information which has been extracted directly from the Glas Cymru Holdings Cyfyngedig (Glas Cymru) Annual Report and Accounts for the year ended 31 March 2021, approved by the Board on 3 June 2021.

The audited Annual Report and Accounts will be received by Members at the Glas Cymru Annual General Meeting on 2 July 2021. The Annual Report and Accounts will be made available online at dwrcymru.com shortly afterwards.

The financial information does not constitute statutory accounts within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards (IFRS). The Company's auditors, KPMG LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2021. The auditors' report did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. The consolidated financial statements will be filed with the Registrar of Companies following the Company's Annual General Meeting.

This report contains certain forward-looking statements with respect to the future business prospects and strategies of the Glas Cymru Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. A number of factors exist which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

References to Glas Cymru and the Group in this document refer, respectively, to Glas Cymru Holdings Cyfyngedig and the group of companies of which it is the parent; references to Welsh Water relate to Dŵr Cymru Cyfyngedig, the sole operating company in the Group.

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.

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 well-being 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 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 a 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 in the last year we have seen flood levels broken in over 10 of our primary catchments 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. One 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 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 all 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.

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 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:

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.

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 is being provided in our 2021 Annual Report and Accounts.

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. 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 CBE
Chair of the Board

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."

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 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 on line 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, where we failed to meet our target, 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. Whilst 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

FINANCIAL REVIEW

"THE NEW BOND ISSUE... STRENGTHENS AN ALREADY ROBUST LIQUIDITY POSITION..."

FINANCIAL PERFORMANCE

The Group is in a strong financial position as at 31 March 2021; gearing remains low at 60% (2020: 60%) and we have retained our sector-leading credit ratings."

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): our gas-to-grid facility at Five Fords treatment works 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 direct 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 -1.1493% 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 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 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.

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 be 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.

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 in the Annual Report and Accounts, where we have set out in our long-term viability statement its estimated impact on our financial forecasts.

PM Davis

Mike Davis
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2021

Continuing activities	2021 £m	2020 £m
Revenue	778.3	779.2
Operating costs:		
Operational expenditure	(329.0)	(325.9)
Exceptional item	(33.5)	(10.5)
Infrastructure renewals expenditure	(74.4)	(96.5)
Depreciation and amortisation	(334.2)	(316.2)
	(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	4.8	6.2
Financial expenses	(126.1)	(164.3)
Fair value gain/(losses) on derivative financial instruments	(6.8)	(48.3)
	(128.1)	(206.4)
Loss before taxation	(120.8)	(175.9)
Taxation	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 £0.9m (2020: £1.0m).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	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	(1.3)	(0.9)
Related deferred tax	0.3	0.2
Revaluation of property, plant and equipment	28.6	132.0
Related deferred tax	(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

	2021 £m	2020 £m
Assets		
Non-current assets		
Property, plant and equipment	**5,821.2**	5,762.3
Intangible assets	**204.0**	192.2
Trade and other receivables	**0.8**	0.8
Other financial assets:		
– derivative financial instruments	**3.3**	0.2
	6,029.3	5,955.5
Current assets		
Inventories	**4.4**	4.0
Trade and other receivables	**570.7**	576.5
Cash and cash equivalents	**220.9**	667.4
Other financial assets:		
– derivative financial instruments	**32.6**	36.2
	828.6	1,284.1
Total assets	**6,875.9**	7,239.6
Liabilities		
Current liabilities		
Trade and other payables	**(540.8)**	(562.7)
Provisions	**(8.5)**	(6.4)
Other financial liabilities:		
– borrowings	**(78.3)**	(412.8)
– derivative financial instruments	**(39.2)**	(28.3)
	(666.8)	(1,010.2)
Net current assets	**161.8**	273.9
Non-current liabilities		
Trade and other payables	**(401.9)**	(314.4)
Employee benefits	**(89.9)**	(87.4)
Provisions	**(7.1)**	(7.9)
Other financial liabilities:		
– borrowings	**(3,676.6)**	(3,706.1)
– derivative financial instruments	**(478.0)**	(482.7)
Deferred tax – net	**(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	**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 166 to 208 were approved by the Board of Directors on 3 June 2021 and were signed on its behalf by:

Peter Perry
Chief Executive Officer

Mike Davis
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

	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**

CONSOLIDATED CASH FLOW STATEMENT

	2021 £m	2020 £m
Cash flow from operating activities		
Cash generated from operations	**348.4**	340.7
Interest paid	**(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	**(446.5)**	166.3
Cash and cash equivalents at 1 April	**667.4**	501.1
Cash and cash equivalents at 31 March	**220.9**	667.4