glas
Glas Cymru Holdings Cyf

Dŵr Cymru
Welsh Water

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2024

WELCOME TO OUR 2024 ANNUAL REPORT

glas
Glas Cymru Holdings Cyf

Dŵr Cymru
Welsh Water

Contents

CHAIR OF THE BOARD'S STATEMENT

GLAS CYMRU ONLY EXISTS TO DELIVER THE BEST POSSIBLE SERVICE TO ITS CUSTOMERS.

Alastair Lyons CBE
Chair of the Board

Our Purpose

As a company limited by guarantee without shareholders Glas Cymru exists for one purpose only – to enable Dŵr Cymru Welsh Water (DCWW), its wholly-owned regulated subsidiary, to deliver the best service possible to its customers, providing them with clean wholesome water and removing and treating their wastewater so that it can be returned to the environment without causing harm. This single-minded focus on delivering to the communities within our operating area drives the culture of all who make up DCWW – its Board, its Executives, and its workforce. As Chair I am very proud when I hear of our people going above and beyond to restore supplies to customers after a difficult mains burst or a severe weather event, or helping customers recover after sewer flooding caused by a torrential storm or a blockage. Conversely, I and my colleagues on our Board and our Executive are deeply disappointed when our service falls short of what is expected or what we do creates harm to the environment.

Delivery

We recognise where we need to improve our performance and, as set out in his CEO's message, Pete Perry and his executive team have clear, well thought through and resourced plans to deliver that improvement, plans whose actioning is subject to detailed review by our Quality & Safety Committee on behalf of our Board. Delivery is the overriding focus of the business for this and the coming year. As set out in detail in the performance recovery plan we have submitted to Ofwat, and against which we and they measure our achievement, we have some key targets to achieve to get ourselves back on track – fewer pollution events, in particular those categorised as serious by our environmental regulators, lower leakage, fewer and shorter interruptions to supply, and improved tap water quality.

Investment

In most cases investment in the assets we use to deliver our services is the base on which that improvement will be achieved. For many of the areas where such improvement is needed it will take longer than a single year, and in some cases such as storm overflows, longer than a 5 year Asset Management Plan period (AMP). We have invested significantly over this current AMP, which began in 2020, with £483 million of capital expenditure last year and £557 million planned for 2024 to 2025, being the final year of this regulatory period over the whole of which we will have invested £2.0 billion. This includes £80 million that has been made possible by our not-for-shareholder status enabling us to reinvest into the business what would otherwise be paid out as dividends. This will be £165 million when these projects are complete. The plans we have submitted to Ofwat for AMP8, the next 5-year regulatory period starting in April 2025, would have us invest over £4 billion, our highest ever planned and the most we have assessed would pass our three tests – is it deliverable, can our customers afford it, and can we raise the finance necessary to support it. Gaining Ofwat's agreement to our plan is fundamental to our ability to deliver the improvements we aim to achieve both for our customers and the environment.

Challenges

Within our plans for AMP8 are schemes that will tackle some of our most challenging issues. Those facing our Cardigan sewage works were highlighted last year by the BBC. Here sea water is finding its way into the sewers and the salt in the water is reacting with the treatment process, severely reducing the capacity of the works and causing the frequent discharges. To find the most cost-effective solution for our customers we tried, with the agreement of Natural Resources Wales (NRW), a number of different things including lining part of Cardigan's sewers. However none proved a permanent solution, leading us to agree with NRW that we would have to build a whole new works – that will cost of the order of £20 million and take 3 years to complete. Similarly serious pollutions are typically caused by asset failure: we have suffered 2 such pollutions over the last 18 months resulting from failures on the south-east coastal main that runs 18 miles along the Gwent levels. £84 million is included in our PR24 submission to Ofwat to replace this main. Issues with acceptability of water are primarily caused by iron and manganese deposits in cast iron trunk mains of which we still have 7,000 miles. In each AMP we recondition or replace a certain length of these trunk mains and this will continue for the foreseeable future – in the current AMP we are spending £120 million and in the next we have planned £135 million. In the same vein our most significant leakage and interruptions to supply of water are caused by trunk main bursts, in particular of the asbestos cement mains that are prevalent in west Wales. These are now around 60-90 years old and over the last 12 months have experienced double the rate of bursts than was the case 4 years ago. Again we have sought £66 million in our PR24 submission to start to address these mains.

Climate change plays a significant part here as ground movement due to prolonged dry conditions and sudden freeze/thaw, as both occurred in 2022, are major causes of bursts

CHAIR OF THE BOARD'S STATEMENT
CONTINUED

– it is only relatively recently that we have appreciated through analysis the full impact of climate change in accelerating asset deterioration. With much more extreme weather, as per the flooding of 2023 and the never-ending rain last winter, assets are being required to perform under conditions for which they were not designed, and the way we used to operate our network to optimise performance is having to be rethought. All the evidence suggests that we must plan for this being even more the case in the future.

By the end of the next AMP in 2030 we plan to have removed 90% of the phosphate that we have a responsibility to remove in the catchments of the Special Areas of Conservation (SAC) rivers and to have satisfactorily resolved the top 100 storm overflows (SO) graded according to the environmental harm they cause. To meet the criteria determined by NRW for a storm overflow to be assessed as satisfactory we project that achieving this status for these 100 will cost of the order of £670 million. To give an idea of the scale of the challenge, when Welsh Water took over the sewerage system from water authorities on privatisation we assumed responsibility for 2,300 such overflows. Some of these 'legacy' storm overflows were constructed many years ago in places that are currently very difficult to access or even to know that they exist. For this reason we have around 120 that do not currently have permits. We want to get these permits established as quickly as possible as these overflows can currently be characterised as operating 'illegally'. However, to do so requires NRW to assess their effectiveness and a consequent extended period of measurement of their environmental impact. Our aim, agreed with NRW and the Environment Agency (EA), is to have all such permits in place by 2027 prioritising those relating to the SAC rivers.

Prioritisation

Prioritisation is key as there will always be more that we would like to do than can be afforded, delivered and financed. For that we work with our stakeholders to understand their priorities and, match ours to theirs. To prepare the plan for PR24 Welsh Government established the PR24 Forum bringing together the Welsh water companies, the environmental regulators, Ofwat, and the Consumer Council for Water (CCW) to agree priorities and review our plans. With intense focus, particularly by the media, on pollution and the operation of the sewerage system it was essential that there was clear policy to guide prioritisation, and this was provided definitively during 2023 by the First Minister and the Minister for Climate Change through the'steers given in the PR 24 Forum process. We were tasked with improving the quality of water in the 109 SAC rivers and more generally reducing the harm to the environment caused by our operations, prioritising those investments that would have the greatest benefit.

Affordability

Commentators ask whether we have underinvested in the past. With a substantial infrastructure, large elements of which are old, there will always be more we would like to replace than is affordable, particularly when we recognise the financial pressure on many of our customers who are among the most deprived in the UK. From 2001 to 2023 we raised bills every year by less than inflation, and only by 6% in real terms over that long period, very conscious that our bills were already the second highest in the industry. This is caused by our sewerage charges, which reflect the considerable investment we made after privatisation to rebuild our coastal sewage works, to treat effluent rather than pumping it through long outfalls to be discharged untreated into the sea. For those companies with inland sewage works, these had been rebuilt prior to privatisation at the taxpayers' expense rather than the bill falling on customers. It is no coincidence that we and South West Water, with the most coastal works, have some of the highest sewerage charges. In contrast, our water supply bills are the 3rd lowest in the industry in the UK.

Financeability

As well as keeping our bills down, we used £2.8 billion derived from not paying dividends to shareholders to reduce the 93% gearing Glas Cymru started with in 2001 when it bought Dŵr Cymru. We now have among the lowest gearing in the sector at 60% and consequently among the highest credit-ratings. Maintaining our A rating is very important. It allows us to enjoy lower interest costs, saving 1/4% against other water companies, and gives us confidence in our ability to raise the £3.7 billion debt we will need before the end of the next AMP to refinance £2.4 billion existing debt maturities and secure the further funding that will support the AMP8 capital programme.

Deliverability

As well as there being limits to what customers can afford and lending investors will provide, there is also a limit to how much our own business and our supply chain can deliver in any set period of time. As we prepare for an increase of 118% in our capital expenditure in AMP8 compared with the current AMP we are well advanced with the procurement of the necessary contractor resources and with the design and preparation of the AMP8 Year 1 construction programme. Our aim is to have £400 million of capital projects ready to start by the beginning of the new AMP.

Openness

Whatever the past, we are where we are and must, therefore, make as much progress as we can as fast as we can. Our management team has high ambitions over the period of the next AMP – to have returned to the 4 star Environmental Performance Assessment (EPA) we last held in 2021 and to move to being assessed by Ofwat as a leading company from our current sector-lagging rating. This is not, however, a turnaround that can be achieved overnight or even in a single year. There is, therefore, the risk that even if we deliver this programme of investment and consequent improvement in performance we may experience other issues that reinforce adverse perceptions about our business and the performance of our management. It is our culture to be open and honest about problems, trusting that such openness, and clarity about what we are doing about the issue, is viewed positively and creates support. However, to achieve this we know that we need to promote a broader understanding of the facts that underlie performance issues. As an example, when there is drought as in 2022 and water levels in reservoirs fall significantly, the composition of the raw water changes making it more difficult to treat. This creates the potential for residual taste and odour compounds that, quite understandably, affect customers' acceptability of the finished product. More of this must be expected with climate change, so we seek to develop innovative approaches to counter such effects, learning where possible from the experience of other water companies in the UK and elsewhere. As discussed later in this report (page 77), during the current AMP we have completed 69 innovation projects drawn from proposals submitted to our Innovation Portal, investing £7.1 million in leveraged research and achieving a leverage ratio above 8.

We have sought to build that understanding of what we are doing among those who are closest to the issues and those who are themselves asked for an opinion on what is happening. Our management team has, therefore, sought to inform those who represent communities in UK, Welsh and local governments and those with specific interest in our activities such as the leaders of Environmental NGOs and representatives of the farming community. Over the past year we have interacted with the established bathing groups in Wales to understand the sites they use. We have also sought to inform at the local level and have added to our team of River Quality Liaison Managers which was established in FY 23 to engage community representatives within river catchments, explaining our plans and discussing issues at first hand on the ground. In January we started publishing near real time (within 24 hours) data on spills from those storm overflows that have the potential to pollute beaches or popular inland bathing waters. While our plan is to progressively reduce the number of spills that create environmental harm, publishing this information in the meanwhile helps people to plan when and where to swim.

As our Executives demonstrated when they appeared last year before committees of the Welsh Senedd and the UK Parliament we will always be open about issues and what we are doing about them. Equally it is inevitable, due to the scale and complexity of operations, and our ageing infrastructure, that even in the best-run water company there will be issues. We have 834 sewage works, 2,500 pumping stations, 2,500 SOs, 36,000 kilometres of sewers and 3,500 individual discharge permits. Our job is to minimise the number and severity of these issues. As regards serious pollutions, NRW rightly says that they aim for zero, and we also plan to achieve that objective.

In the same way, when in 2022 our external assurance adviser Jacobs raised questions about the appropriateness of the methodology we were using to calculate leakage in our network, we immediately notified Ofwat that we needed to investigate further and might need to restate previously reported figures. We then established a committee of the Board comprising myself and the Audit Chair, to ensure a comprehensive detailed investigation independent of the affected management to establish the facts, determine why the issues had occurred, and what needed to be done to rectify them and prevent a recurrence, and form a view as to the consequences. Ofwat's own report reached very similar conclusions to our own, In order to recover our leakage and PCC performance we are investing a further £59 million in the final two years of AMP7.

We have good reason to believe that such openness and focus on the communities where we operate is appreciated by our customers and other stakeholders. We achieved first place in the industry for customer trust according to CC Water's Water Matters report published in May 2024, and we are 3rd placed of Water and Sewerage Companies on the C-Mex household customer measure. Our Water Resilient Communities project in Newport West welcomed almost 1,000 people to its community day in early November to reach more vulnerable customers, and the new visitors' centre at the Llanishen/Lisvane reservoirs received over 150,000 visitors in its first 3 months of operation against its annual target of 180,000.

Accountability

In a shareholder-owned company it is clear to whom the Chair and colleagues on the Board are accountable – to shareholders in general meeting. If the Board fails to ensure that the company's management delivers against stakeholder expectations it can expect to be challenged on performance in formal and informal meetings with shareholders, and ultimately can be voted out of office by shareholders. What shareholders can and cannot do is very clearly defined by the company's constitution – its memorandum and articles: what they do not do is to participate directly in setting the company's strategy or managing its business. Those are for the company's Board which delegates authority for the development and implementation of agreed strategy to the CEO and their appointed management team.

Our Board has identical accountabilities, but to our Members rather than shareholders. The Board is similarly challenged on its performance in formal meetings and by individual members informally during the course of the year. When the Company's constitution was developed in 2001 it aimed to mirror the governance of a listed company: indeed, we voluntarily follow the UK Corporate Governance Code. Our Members have largely the same powers as shareholders, but unlike shareholders they have no financial interest in the business: their sole interest is to contribute to the Company delivering its Purpose to its customers, bringing to bear their personal skills and experience and understanding of what is needed by the communities of which they are a part.

We recognise the importance of being transparent about how accountability is exercised in practice, particularly given the intense scrutiny faced by all companies in the water sector. This year we have reinstated our pre-Covid practice of holding informal regional meetings for our Members with our management – twice a year in 3 locations – with a significant amount of time for unstructured questions. Each of our Committee Chairs will take a slot at this year's AGM to outline the stewardship exercised by their Committee during the past year. To underscore further the independence of the process of selecting new Members we have invited existing Members with no other association with the Company to put themselves forward for election to the Independent Members Selection Panel chaired by Sir Paul Silk. As well as circulating detailed minutes to Members after each of our formal meetings we will include a summary of that activity in our future Annual Report & Accounts.

CHAIR OF THE BOARD'S STATEMENT
CONTINUED

Collaboration

Much of what we want to achieve involves working with others to find solutions and achieve objectives. The Welsh Government has an objective of reducing the amount of water used and Ofwat is likely to task us to bring per capita consumption (PCC) down significantly by 2030. This, however, depends on action being taken by our household and business customers to use less water. We can provide support by suggesting steps that could be taken and by identifying where water is currently wasted. Equally, customers will rightly look to us to avoid wasting treated water through leaks and we have put together a very substantial programme of work to identify and fix leaks on our trunk mains and distribution network. Across the final 2 years of the current AMP we anticipate spending around £150 million on this. The biggest cause of sewer flooding is blockages, to which the most significant contributor is the flushing of wet wipes. While we continue to argue for legislation to ban plastic wet wipes, in the interim we encourage our customers to think before they flush! Regarding pollution, our aim is to find, wherever feasible, sustainable solutions to storm overflows, using approaches such as reed beds to filter overflows instead of building large concrete storage tanks with a damaging carbon footprint. To do so involves collaborating with landowners and local authorities to identify appropriate sites for such schemes.

Our Contribution

Alongside our primary purpose of providing critical national infrastructure we also aim to make the greatest contribution we can to the communities we serve. This is one of the principal focuses of the Board's Environment Social and Governance Committee established in 2021. Recent analysis by the Cardiff Business School assesses that our activities add £1bn to the Welsh economy. We employ (at March 2024) almost 4,000 people directly and we estimate that we create at least the same number of jobs again in our supply chain, and that the capital programme for AMP8 is likely to give rise to a further 2,000 jobs in construction. Almost 90,000 children attended our education programme in 2023 and we were delighted last September to welcome Lynne Neagle, Deputy Minister for Mental Health and Wellbing, and Julie Morgan, Welsh Senned Member for Cardiff North, to formally open our new visitors' centre at the restored Llanishen and Lisvane reservoirs. Given that within our operating area are communities with the greatest level of social deprivation in the UK we offer the highest contribution to social tariffs of any water company and have recently expanded our schemes to target those working customers not on means-tested benefits but who have negative budgets.

Succession

Having joined the Board of Glas Cymru in May 2016 this will be my last Annual Report as I will retire at the end of 2024. Our Senior Independent Director, Jo Kenrick, is well advanced leading the Nomination Committee in selecting who they will recommend to the Board to be my successor.

It has been a privilege to chair a commercial organisation with such a strong social commitment to its country, the communities it serves, and all of its customers. It has a "can do" culture that cares deeply about the quality of the services it provides and its impact on the environment. While on the one hand being open, consultative and consensual, both internally and among its stakeholders, when there is a crisis it has to, and does, respond with military efficiency and precision, with no one in the response team being in any doubt as to what to do when and how – the acceptable face of "command and control".

The challenges facing the management team are complex and multi-faceted. It has to deliver two distinct elements of critical national infrastructure – clean water and sewerage – while seeking to satisfy a myriad of stakeholders – society at large; Welsh, UK, and local Governments; an economic regulator; environmental regulators in England and Wales; the Drinking Water Inspectorate; the Consumer Council for Water; our own Customer Challenge Group, and Environmental NGOs, and of course our Members, to name but a few. My learning from my previous roles was for the Board to focus on management's progress through the regular review of a limited number of key deliverables that would determine the company's success in implementing its strategy. This current regulatory period – AMP7 – has 56 Performance Commitments defined by our regulator against which the effectiveness of our management is assessed. All of this is taking place against a backdrop of intense societal and media focus that is rightly finding us wanting against today's expectations, and using a sewerage system that has its origins in history but whose redesign will cost billions and take multiple AMPs to achieve. I have high regard for the capability and commitment of Welsh Water's management and have taken great pleasure in seeing enthusiastic, committed young men and women from all backgrounds gain experience and take on ever more demanding roles on their path to become the leaders of the future.

I hope that when I retire the Company will have received from Ofwat a Final Determination for AMP8 that is deliverable, affordable, and financeable: one that will provide the resources needed to make significant progress over the next five years in those areas where it currently faces its greatest challenges, and supports the Company realising its Vision – "To Earn the Trust of our Customers Every Day". I offer my sincere thanks to all those in Welsh Water who give so much of themselves to make this a reality, and for their contribution and support over the period I have been the Chair.

Alastair Lyons CBE
Chair of the Board

6 June 2024

WE ARE WELSH WATER

Since the inception of Glas Cymru our aim is to own, finance and manage Welsh Water for the benefit of its customers. This has consistently defined our Purpose from the very beginning, and in 2018 a new, more formal Statement of Purpose (see right) was incorporated in the Company's articles of association. As a company limited by guarantee without shareholders Glas Cymru exists for one purpose only – to enable Dŵr Cymru Welsh Water (DCWW), its wholly-owned regulated subsidiary, to deliver the best service possible to its customers. We provide essential public services to our customers by supplying their drinking water and then carrying away and dealing with their wastewater in a sustainable manner, one which protects our environment and the biodiversity it supports. As a long-term Welsh infrastructure business, we align our plans and our own wellbeing commitments (published in 2020) to the Well-being of Future Generations (Wales) Act, and are proud to support Welsh culture and language provision.

See page 08 for more on who we serve and our stakeholders

Read more about us online at:
corporate.dwrcymru.com/en

Our Purpose

Our company purpose is to provide high-quality and better-value 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.

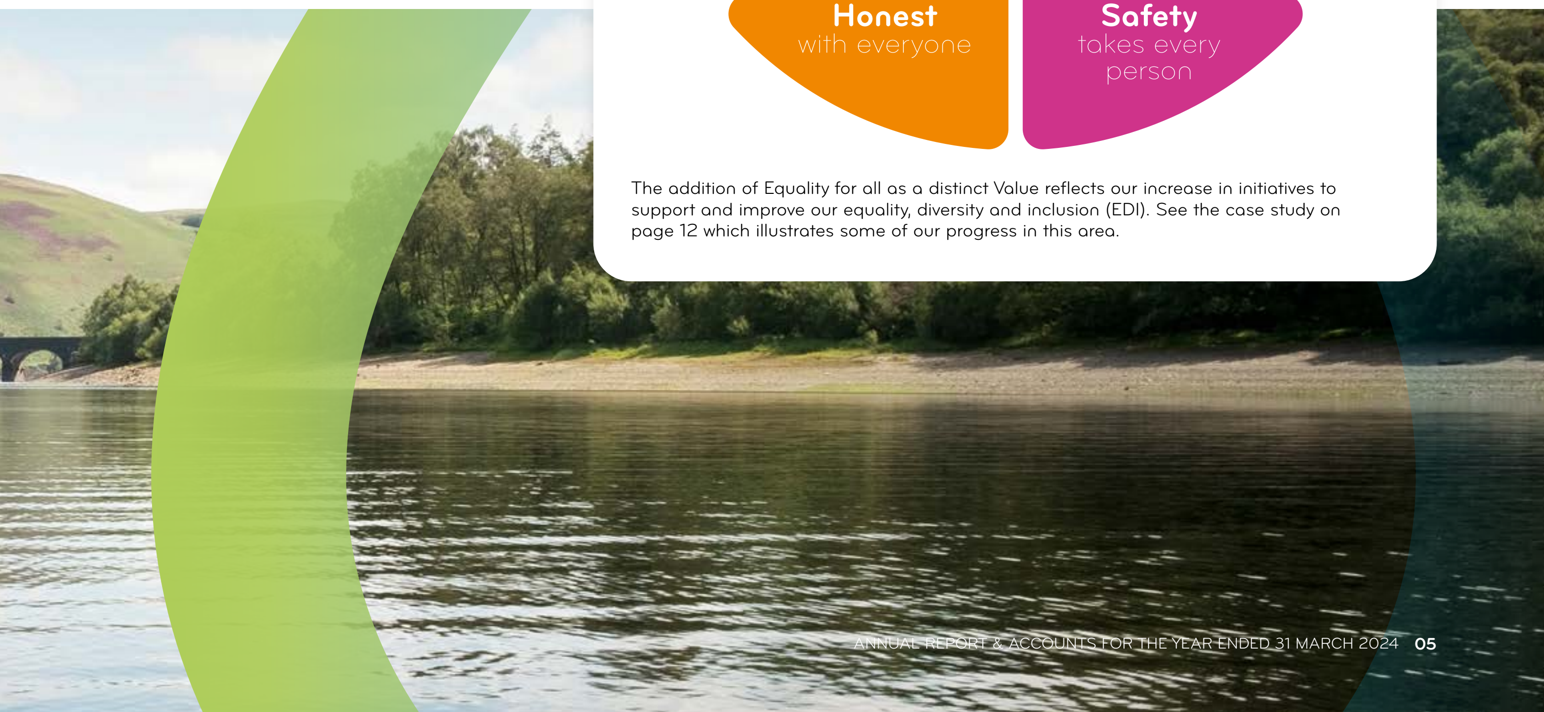
We consider our Purpose, Vision and Values to be mutually reinforcing elements of how we operate and of our corporate culture.

Our Vision

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

Our Values

The addition of Equality for all as a distinct Value reflects our increase in initiatives to support and improve our equality, diversity and inclusion (EDI). See the case study on page 12 which illustrates some of our progress in this area.



WHAT WE DO

Our Purpose, Vision and Values all point towards a relentless focus on applying all our available resources to meeting the needs of our customers, providing the best possible outcomes. Nevertheless, we fully acknowledge that our delivery of services and our environmental performance have not been at the required levels in recent periods, and so our current priorities are

- Improving delivery of our services to customers and communities
- Improving our environmental performance
- Ensuring resilience and sustainability to support our activity over the long term, and the delivery of our Welsh Water 2050 strategy and ESG objectives

It is our job to look after water for those in our operating area, supporting public health and the functioning of people's daily lives.

To do this we

- borrow water from the water cycle, collecting and storing it in reservoirs, but leaving around 97% in the natural environment;
- clean it at one of our 66 water treatment works to make sure it is safe to drink; and
- pipe it to our customers for them to use whenever they need it.

We then

- take away wastewater; and
- treat it so it can be returned to our rivers and seas.

As part of all of this we

- work with landowners to prevent contamination of the water that runs off the hills and other surfaces into reservoirs;
- build and maintain a huge asset base including dams, treatment works for both raw and wastewater; and an extensive network of pipes and pumping stations to move water around.

Our business model is more formally described in terms of inputs, process and outputs on page 10.

Sometimes our assets will fail or will be overwhelmed by extreme rainfall or cold weather, disrupting the supply of clean water or the removal and treatment of wastewater. When this happens, we work hard to fix things as soon as possible to reduce any inconvenience to our customers and harm to the environment.

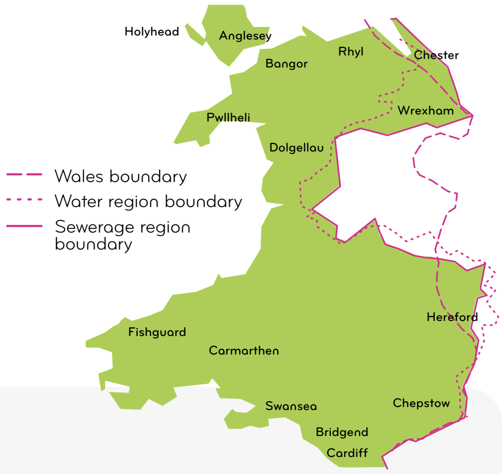
In addition to providing these services to our customers we create social value for the customers and communities we serve by

- operating visitor centres for recreational and wellbeing purposes;
- supporting customers in vulnerable circumstances, whether financial or otherwise;
- providing funding for community projects;
- collaborating with others on research and innovation to create more effective and efficient ways of operating;
- running programmes to educate the younger generation in good practice in using water and disposing of wastewater; and
- making a major contribution to the Welsh economy, directly providing jobs and potentially long and rewarding careers for our workforce of c 4,000 people (at March 2024) and indirectly supporting another c 5,000 jobs within our suppliers' and contractors' businesses.

And throughout all these activities we focus heavily on

- protecting the natural environment from harm (including pollution);
- improving the resilience and sustainability of our operations, assets and services;
- adapting to be ready and able to cope with current and future challenges such as
  - climate change,
  - a growing and ageing population, and
  - an ageing asset base, large parts of which were designed for very different requirements and conditions to those we see today and expect in coming decades;
  - improving the quality of the water in our rivers and at our beaches;
  - protecting and improving biodiversity;
  - reducing our greenhouse gas emissions; and
  - improving our energy efficiency and moving to net zero carbon.
  - An ageing asset base, large parts of which were designed for very different requirements and conditions to those we see today and expect in coming decades.

OUR OPERATING AREA



Our drinking water supply area covers most of Wales and Herefordshire and parts of Deeside.

Our wastewater network covers most of Wales and Herefordshire.

Features of and challenges in our operating area include the following:

Demographic and socio-economic factors

Much of our customer population is widely dispersed in rural areas, meaning more kilometres of pipes and more treatment works per customer. Our water network includes many upland reservoirs and gravity-fed systems, which means pipelines have to work under very high pressure, exacerbating the challenge in relation to mains bursts and general network maintenance.

Between 2019 and 2022 around 21% of people in Wales were living in relative income poverty (source: Welsh Government) and recent economic conditions mean this situation is likely to have worsened. Economic output (Gross Value Added) and household incomes are generally lower in Wales than in the UK as a whole. This backdrop presents us with additional challenges in ensuring affordability of bills and in balancing affordability with investment needs.

Natural environmental factors

The characteristics of our operating area pose a unique set of challenges for us as a water company. While the high rainfall levels compared to eastern parts of the UK are a positive in terms of water resources, they also increase the risk of flooding and put pressure on our management of surface water and our wastewater networks. Our mix of coastal lowlands and mountain uplands with a generally dispersed population creates challenges as our network has to operate under high pressure; and access for maintenance and repairs can be difficult. We also have a long coastline and many small and ecologically sensitive rivers compared to other WASCs (Water and Sewerage Companies).

Climate adaptation

The extremes of weather in recent years, ranging from the long drought of 2022, through the severe freeze/thaw events in late 2022 to early 2023, to the intensity and frequency of Met Office-named storms in FY 24, have reinforced the need to ensure we adapt our asset base and services to cope with the threats of climate change. Specific responses include creating better flood protection around some of our more susceptible treatment works, improving our monitoring capability to identify problems earlier, and building additional storage capacity to cope with extreme rainfall. We have also reorganised some of our emergency response operations to be able to act more quickly and effectively to fix operational problems, and are linking up parts of our network to enable us to maintain supply during times of drought or otherwise restricted water availability.

Our scale in providing essential services

1.4 million
HOUSEHOLDS SERVED

OVER
800
MEGALITRES OF FRESH WATER PROVIDED DAILY

ALMOST
10,000
JOBS SUPPORTED

£1 billion
EXPENDITURE GENERATED:
OUR ACTIVITY REPRESENTS >1% OF WELSH ECONOMY

WHO WE SERVE

Household customers

75%

OF REVENUE

We provide essential services to more than 3 million people, including supplying drinking water to most of Wales and Herefordshire and parts of Deeside. We also provide wastewater services to most of Wales and Herefordshire.

Business customers

21%

OF REVENUE

We have around 110,000 business (or non-household) customers. They include everything from large industrial sites to small high-street shops and offices, agricultural businesses, local authorities, charities, and educational and health facilities.

Developer customers

4%

OF REVENUE

We work with new entrants and variations, self-lay providers and developers ranging from large housing or commercial building developers to individual housebuilders, providing new water and sewerage connections and supporting on-site 'self-lay' providers in line with the standards and legislation in our operating areas.

It is important that all our services meet the highest standards. Working with developers in this way helps us to play our part in supporting economic development and growth in the communities we serve.

Our stakeholders

Our stakeholders play an important role in shaping our plans and ambitions. The value we create for each stakeholder group is summarised as part of our business model on page 10. We undertake extensive engagement activity with these groups, taking account of their interests and our own objectives. These activities, which are closely monitored by our ESG Committee, are set out on pages 54 to 55. Engagement by the Board and the effect it has on Board decision making is set out on pages 51 to 53.

Our assets include

27,600km
OF WATER MAINS

92
RESERVOIRS MANAGED

36,600km
OF SEWERS

3m
NUMBER OF PEOPLE SERVED

834
WASTEWATER TREATMENT WORKS MANAGED

828m
LITRES OF FRESH WATER PROVIDED EVERY DAY

STRATEGIC THEMES AND ENABLERS

Our strategic themes

For the purposes of clarity in this report we group our activity and plans into 2 strategic themes:

Service delivery to our customers and communities

which includes our water supply and wastewater services and activity providing social value as described above. For convenience and simplicity we refer to this theme throughout the rest of this report as 'Service Delivery'.

Protecting the environment

which includes our activity to protect and support the environment and to adapt to future environmental challenges such as climate change, protecting biodiversity and reducing environmental harm created by our operations. For convenience and simplicity we refer to this theme throughout the rest of this report as 'Environment'.

We also report under a separate category of

Sustainability

We develop and implement policies that allow the business to sustain its delivery and environmental goals into the long-term and, therefore, achieve our 2050 goals. Having a sustainable approach to our business is, therefore, a prerequisite of delivering against the 2050 promise.

Our enablers

Our strategic themes are supported by the way we work, illustrated here

Finance

As a not-for-shareholder business we are more able to focus on the needs of our customers and communities and to offer an attractive investment proposition to bond investors when we need to raise money to pay for our investment plans. We have one of the strongest credit ratings in the water sector, keeping our financing costs low and helping to maintain affordable services.

For more information on our strong and stable financing see page 24.

Governance

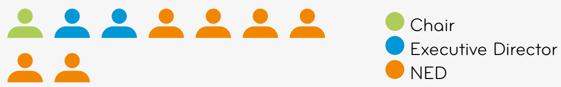
We recognise that strong governance is essential to gain and maintain the trust of our stakeholders and to help us to achieve the outcomes they want. This starts with the tone at the top set by an experienced Board (the majority of whom are independent Non-Executive Directors) and a clear and comprehensive governance framework which benefits from significant oversight and challenge from a number of independent elements. This framework is described in the Governance section of this report – see page 96.

Credit ratings (at 31 March 2024)

Bonds	MOODY'S	S&P	FITCH
Class A*	A1	AA	A
Class B	A3	A-	A
Class C	Baa2	BBB	BBB+
Outlook	Stable	Negative	Stable

* The Class A bonds are guaranteed by Assured Guaranty UK Limited (A1/AA/Not rated) and revert to the higher of the guarantor's rating and the underlying bond rating.

Board independence at 31 March 2024



Total Directors: 9, Independent NEDs: 6
Proportion of Directors who are independent: 66.7%

Directors' biographical details are provided on pages 102 to 105.

OUR BUSINESS PROCESS

Inputs, outputs and value creation for stakeholders

Our inputs

Our people
Our almost 4,000 people (at March 2024) are committed to providing excellence in everything they do.

Regulators
We welcome close and open relationships with all regulatory and government bodies and recognise that working together produces better outcomes for our customers and the communities we serve.

Customer feedback
We run extensive customer feedback programmes to inform our plans, to improve our operations and to provide the best possible services.

Suppliers
We work closely with our suppliers and contractors to ensure they deliver good value for money to support the affordability of our own services.

Infrastructure and investors
We develop, maintain and operate an extensive infrastructure to deliver our services efficiently now and decades to come. Financing is provided by investors in our bonds.

Natural resources
The oceanic climate in Wales provides rainfall of over 3,000mm per annum in some parts of our operating area, notably Snowdonia. Rainfall in the southern lowland areas tends to be lower and less intense.

Process – Our operations

- **Collection** of water
- **Treatment** of water
- **Distribution** of water to customers
- **Collection** of wastewater from customers
- **Treatment** of waste water
- **Conversion** of waste into energy to power our sites
- **Returning** water to the rivers

Our desired outputs

- Excellent customer service for Wales*
- Safe, high quality and reliable drinking water for Wales*
- Supporting the future of communities for Wales*
- Safeguarding the environment for Wales*

* We use Wales here as a proxy for our operating area which is described on page 07.

Value created for stakeholders

Our people
We provide jobs and potentially long, rewarding and fulfilling careers in a supportive and inclusive working environment.

Customers, communities and society
We help maintain public health by providing safe drinking water and waste treatment services. We provide additional societal benefits with our social tariffs, education programmes and visitor centres.

Suppliers and contractors
Our activities support c 5,000 jobs in our supply chain and make a major contribution to the Welsh and UK economies partly due to our need to engage suppliers and contractors to support our operations.

Future generations and environment
We plan for the long term, building resilience and sustainability into our services and reducing harm to the environment caused by human activity.

Industry and business groups
Through our engagement with a wide range of suppliers and other groups we share and learn from best practice contributing to a Team Wales approach to drive better outcomes for all.

Financial and investors
We provide fair and low-risk returns to our bond investors.

Regulators and government
We help fulfil regulatory and government policy objectives in an open and transparent manner.

HOW WE WORK

A single clear Purpose

In recent years the UK water sector has been under significant scrutiny as customer expectations have changed, environmental regulations have been tightened, and companies have tried to respond to the increasing challenges of climate change and its effect on ageing infrastructure, while maintaining affordable bills during a cost-of-living crisis.

Our clear Purpose and our not-for-shareholder status provide us with a single-minded focus on applying all our available resources to meet the needs of our customers, and contributing to the communities of which we are an integral part as a provider of essential utilities.

Our culture

We take great pride in the work we do and the customer services we provide.

Our culture is driven by our Vision which is 'to earn the trust of our customers every day', and is underpinned by our Values. Our clear Purpose helps us focus on delivering the best outcomes for our customers and the environment. We are always striving to do a better job, and we do it through learning, innovating, embracing change and sharing best practice internally and with other organisations.

To help achieve this, we have clearly defined plans, driven by measurable targets. To deliver these plans we rely on our people, who have the highest levels of motivation, engagement and a strong desire to 'do the right thing'.

We aim to always be clear when something has not gone right, to recognise where we are not achieving as we should, and to develop clear plans to do better.

We recognise the value of diversity of thinking within our organisation. It is why we do all we can to promote and encourage a more diverse workforce, attracting the best people and reflecting the communities we serve. We aim to foster an inclusive culture where everyone can be themselves, reach their full potential, contribute to the Company's success and enjoy a healthy and rewarding career.

How our culture supports the delivery of our strategies

It is inherent in our culture to listen to customers and other stakeholders to understand their evolving needs, modify our strategy and plans as appropriate and apply our culture and Values to meet those needs, now and in the future.

VALUES IN ACTION

Case Study

Safety 'journey to zero'

Our core value that 'Safety Takes Every Person' aims to ensure that everyone remains healthy and safe in the work environment. Ultimately, our objective is to attain an injury-free environment and have a long-term health, safety, and wellbeing improvement strategy, our "Journey to Zero". This strategy embodies how we will eliminate hazards and minimise the health and safety risks to ourselves and to anyone else who might be affected by what we do.

During the past year we have retained our Royal Society for the Prevention of Accidents Gold award and the Welsh Governments Platinum Corporate Health award. You can read more fully about our 'journey to zero' in our annual Health, Safety and Well-being report https://corporate.dwrcymru.com/en/library/health-and-safety-reports.

Case Study

Equality for all

To address the desired balance of a diverse workforce we need to attract and recruit more candidates from under-represented groups. As of January 2024, our applications from those in under-represented groups stood at 8%, up from 4% in the prior year. This has been driven by a number of initiatives, summarised below:

- We guarantee an interview for any applicants who can demonstrate that they meet the minimum role requirements and are from an under-represented group.
- We have changed the language used in our adverts and job descriptions to be more inclusive.
- We use job boards targeting under-represented groups
- We have held school-based careers events aimed at under-represented groups.
- We have attended community events celebrating diversity, such as Pride and Ramadan.

We are encouraged by the increase in applications noted above and were pleased that our latest staff engagement survey showed that 84% of those in our under-represented groups declared they feel they are treated equally and fairly regardless of their background and can be themselves at work.

REGULATORY AND PERFORMANCE MEASUREMENT FRAMEWORKS

Our economic regulator, Ofwat, sets the planning and performance framework for us and other water companies.

Price Reviews every 5 years set limits on customer bills, taking into account expenditure needs and financial factors such as interest rates. The latest, PR 24, covers the period 2025 to 2030. This period will be referred to as Asset Management Period (AMP)8. Ofwat will determine performance targets (annual and for the period as a whole for certain performance commitments (PC), and will specify the basis on which these are measured to ensure consistency and comparability across the sector. The PC targets are used for periodic reporting to Ofwat, and for setting financial rewards and penalties for our performance on some measures. Management prepares annual business plans in this context and, following Board approval of these plans, the Board uses them to monitor the Group's performance.

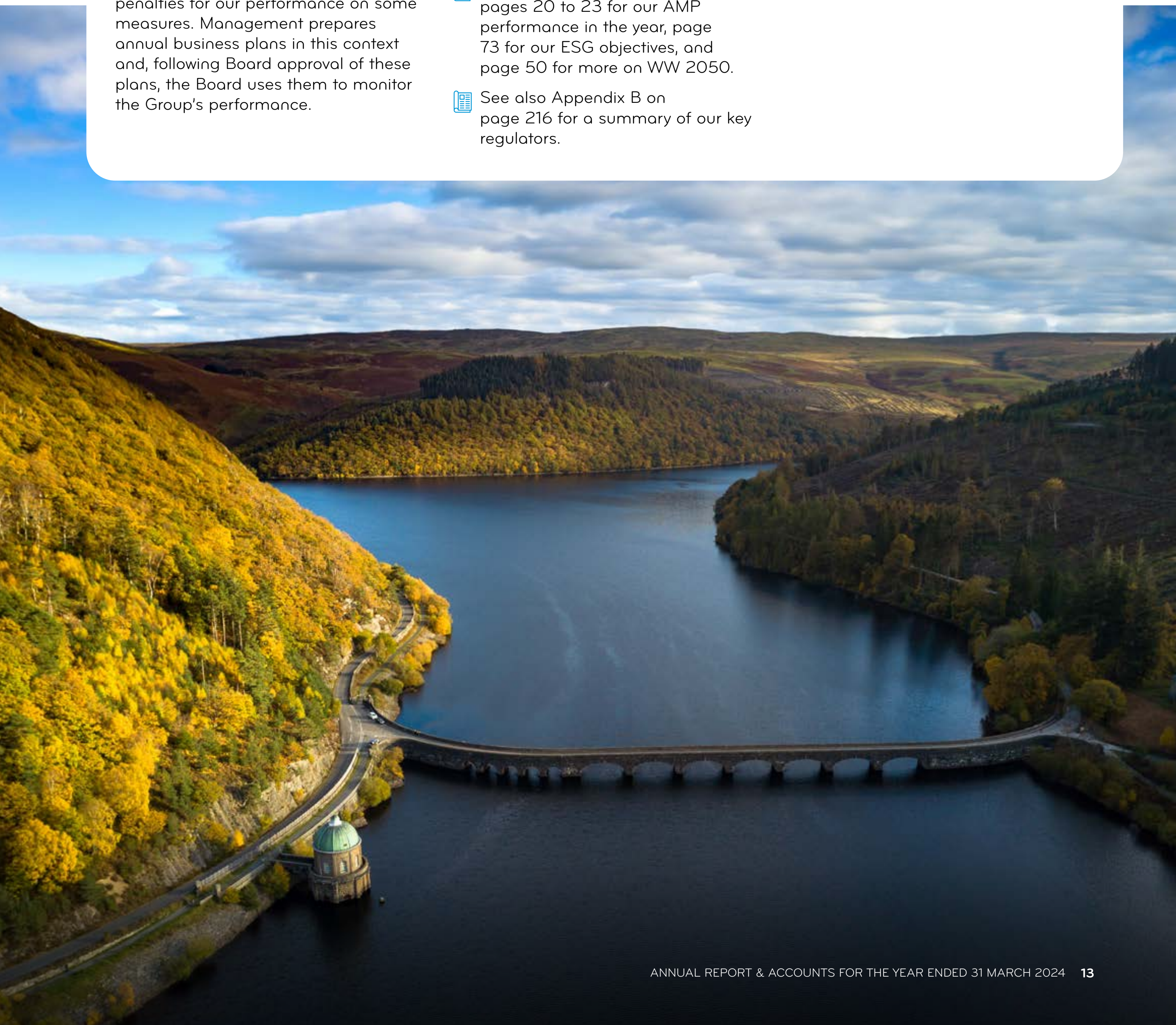
We also have a long-term strategy (Welsh Water 2050, or WW 2050), first published in 2018 and last fully updated in 2022, which sets out our long-term ambitions and goals.

Sustainability is a cornerstone of WW 2050, which is further supplemented by our 10 ESG objectives and our 7 Wellbeing Goals, which are closely aligned to the Well-being of Future Generations (Wales) Act (The Act), the UN sustainable development goals (SDG) and the 10 principles of the UN Global Compact.

See page 49 for How we Plan, pages 20 to 23 for our AMP performance in the year, page 73 for our ESG objectives, and page 50 for more on WW 2050.

See also Appendix B on page 216 for a summary of our key regulators.

This and the preceding pages are intended to provide a brief but broad introduction to our business and the context in which we operate. The immediately following sections (Chief Executive's message on page 15, Performance Summary on pages 20 to 23 and CFO's review on page 24) set out in more detail our recent performance and position.



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.

CHIEF EXECUTIVE'S MESSAGE

"WE ARE COMMITTED TO IMPROVING OUR SERVICES FOR CUSTOMERS AND THE ENVIRONMENT."

Peter Perry
Chief Executive Officer

2023 background

From a weather perspective, 2023 was almost the complete opposite of the previous year. The drought of 2022 saw the hottest ever temperature recorded in Wales, the driest period on record, and was more intense than similar severe circumstances last seen in 1976.

Whereas 2023 was a wetter than average year overall, the variability in weather meant Wales experienced its wettest ever March and driest ever May, two new records in as many months! Aligned to this, only two months in the whole year, May and June, saw rainfall below the long-term average (LTA). We also experienced the wettest July-to-December period since 1890, rainfall of 134% of LTA – classed as a 1-in-80-year event. The end of 2023 also saw a different new record, that of the number of Met. Office named storms, 6 in all, and followed by 4 more in January 2024. These latter events caused very challenging operating conditions but thankfully no significant impact on customers. While we mitigated the impact of these conditions, the extent of the flooding and loss of mains power acts as a warning, given projections that climate change is likely to make this type of scenario the norm.

As a water company on the western side of Britain, we often experience the more turbulent weather patterns linked to a less stable jet stream. While becoming accustomed to the extremes brought by climate change, we must be able to react operationally in the short term but ensure we plan to mitigate this increasing risk with investment in the long term. We are operating in a less predictable climate than we were used to previously and this means we are having to adapt as an organisation to be able to respond effectively to these changes.

These weather extremes represent additional challenges for us in terms of the services we deliver. In some circumstances the impact on assets built in another era, which are now being tested in situations they were not intended for, will require widescale replacement over time. Our PR24 investment plan takes this into account on an assessed prioritised basis, and addressing this risk will form a central part of future investment cycles over the coming decades.

We also recognise that FY 24 has been a difficult period for many of our customers and we continue to offer sector-leading levels of affordability assistance for those struggling to pay. During the year we continued to evolve our innovative approach to this critical issue, through the wider roll-out of Cymuned. This scheme was first launched in late 2023 and helps those who are in work but on low salaries, have negative budgets and are not eligible for means-tested state benefits. It allows our customers in these circumstances to have a payment break in their charges and then return to a normal payment arrangement as their personal circumstances improve.

Our performance

FY 24 has been challenging for us in terms of some of our performance measures and we were disappointed to be classed in the lagging category by Ofwat in their annual performance report for 2022/23. In response to this, we are absolutely focused on our recovery plans for the areas where we have fallen short. I cover this in the following Looking Ahead section of my statement, as this will form the foundation of our business plan for the fiscal year ahead of us.

In our water supply business we were pleased to deliver over 99% compliance with drinking water standards. However, a single low level coliform failure at our largest water treatment works at Felindre, near Swansea, albeit with virtually no public health implications, meant that our Compliance Risk Index score was effectively doubled. Our performance was measured at 7.7 overall (2022: 5.4), with the Felindre failure accounting for over 50% of the 2023 performance figure. We improved our wider bacteriological performance at treatment works and in service reservoirs in 2023. However, despite an ongoing investment programme of mains renewal, our network quality remains very challenging in terms of discolouration and iron compliance. Our PR24 investment plans specifically target sustained improvements in these measures.

The absence of a serious winter freeze event meant that we achieved an improved supply interruption performance in 2023 at c. 23 minutes, (2022:45.minutes). Our performance in the year was adversely affected by bursts caused by deterioration of the condition of water mains in west Wales, which accounts for over 25% of our customer minutes lost total. In this largely rural area we have a predominance of asbestos cement mains, and working with partners on our PR24 investment plan, we have identified the acceleration of burst frequency to be due to the impact of climate change on ground conditions exacerbated consecutively by the drought and freeze/thaw extremes seen in 2022.

CHIEF EXECUTIVE'S MESSAGE
CONTINUED

Turning to our wastewater performance, the predominantly wet weather has brought challenging operating conditions during the year. Overall pollution numbers have increased with more than the usual number of incidents linked to the flooding conditions caused by the stormy period in December 2023. Until this point we were heading for an outturn similar to 2022 (89) but we saw an increase to 108. We had 7 serious pollution events in 2023, slightly up on the previous year. The wet conditions also impacted our wastewater treatment works compliance at 97.3% compared to 98.7% in 2022. This combined performance will mean we remain at 2* Environmental Performance Assessment for the calendar year 2023. However, as we ended our financial year, our underlying level of wastewater sample failures and contributory factors such as sewer collapses are reducing, putting us in a better place to recover to 3* EPA level in calendar 2024.

Wales again secured high-quality bathing water results in 2023, with 98% of designated bathing waters meeting our stringent environmental standards. 80 of our 109 bathing waters (73%) achieved the highest classification of 'excellent'. Wales results compare well against the other parts of the UK. In England 66% met the Excellent standard and in Scotland 44% achieved excellent. Having said that, bathing water quality reporting is highly susceptible to climatic changes, in particular, periods of heavy rainfall. Wales already receives more rainfall on average than other parts of the UK and this past year was no exception. In July 2023, Wales received 191% of its long-term average rainfall and this was followed by 125% during August and September.

For customer service we achieved 5th place in the Ofwat C-Mex satisfaction survey (4th in FY 23). In addition, CCW's trust measure ranks us first against Water and Sewerage Companies. We have maintained our commitment to helping those in difficult financial circumstances and support over 130,000 customers through our social tariffs.

Capital investment

We have invested £483 million in FY 24. The following examples illustrate the breadth of improvements included in this year's programme.

Water Programme

We are currently progressing well on the single largest scheme of AMP7 with the upgrading of valves and the spillway capacity at Llyn Celyn impounding reservoir in central north Wales. The £45 million investment in the reservoir will upgrade its storm reliance with enhanced draw off and scour capacity through a new valving arrangement and the addition of a new spillway to the dam structure. Llyn Celyn regulates the flow of water into the River Dee and this scheme will not only improve the asset's resilience but also enable NRW to maximise and more effectively control releases into the River Dee. We understand this is the biggest reservoir spillway currently under construction in Europe.

We have continued our significant investment in the water programme aligned to improving performance on leakage, customer acceptability of water, and water quality. We have a dedicated team investing £10 million on upstream losses on our water trunk main system fixing large complex leaks, and installing meters, and insertion points on the network to enable us to use innovative in-pipe leak detection techniques. We are also investing an additional £59 million between 2023 and 2025 on leak detection and repair on the wider water distribution network.

We are investing a further £10 million on a programme of works to clean and refurbish service reservoirs across our operating area. The programme has advanced throughout the year improving the condition of assets and reducing the risk of rainwater ingress into the tanks, and refurbishing them to increase their operational life where required. We have invested £30 million to reduce the risk of iron and manganese in the water system causing customer complaints. Our Modelling of hydraulic, water quality and customer data has enabled us to highlight those areas of the water network that need to be replaced or cleaned.

This programme of works is underway in urban and rural areas of Monmouth, Cardiff, Llyswen near Brecon, Rassau, Ebbw Vale and is about to move into the Vale of Glamorgan, Barry and Newport West.

Wastewater Programme

Our Wye River phosphorous-related improvement projects at Eign, Rotherwas in Hereford, and at Leominster, went operational and achieved their Outcome Delivery Incentive commitment dates by March 2024. Following this intensive 18-month construction programme, the successful completion of these, our largest AMP7 Wastewater projects, is a significant achievement having delivered 142 km of river improvements. In addition to these large works, we have already completed projects at Norton, Presteigne, Weobley, Kingstone & Madeley, Clehonger and Peterchurch on the upper Wye. Schemes to reduce Phosphate at Clyro, Monmouth and Lower Cleeve have all started construction in the period. All the Wye River project commitments made as part of our Manifesto for Rivers in Wales will be delivered on time, totalling a £53 million investment.

Construction works have started in New Inn, near Pontypool, on an innovative Nature-Based Solution (NBS) that treats discharges from a SO before releasing it to the Afon Lwyd. The NBS will achieve a 'No Impact' outcome and the solution consists of storm discharges first passing through a new mechanical screen after which flows gravitate first through a series of aerated reed beds and then through constructed wetlands to provide natural treatment before releasing to the river. The £13 million investment will deliver a wetland habitat for aquatic life, enhanced biodiversity, new woodland areas and improved public amenity through footpaths and natural play spaces. Work is due to complete in 2024. This scheme is intended to be a forerunner of similar larger scale NBS which we will deliver in AMP8.

Coastal and river water quality

This area remained a hot topic for us and the wider industry during 2023 and 2024, with ongoing media and political interest. Over the last 3 years or so we have put considerable effort into engagement with stakeholders to understand their concerns and to put across our commitment to minimise our impact on the aquatic environment. With such a degree of external focus, we have developed a capable team of regional river and coastal water quality liaison managers across our operating area. This team is proactive in the community with campaign groups, councillors, regulators and water users. The team works closely with other parts of our business to help engage and inform these customers. Effective relationships are being formed, with the aim of making us easily accessible to those with an interest in what we do. This is helping us lead the way and making us accessible to those with an interest in what we do. The open water swimming community were key to a recent survey, used to help us identify bathing locations in our operating area. From this we were able to see which areas were particularly important to water users and we used this to inform the initial launch of our Storm Overflow Map, which went live in early 2024.

We are also providing support through our Citizen Science Support Funding Programme.

The sustained public interest in sewage discharges has meant that we have ensured local elected representatives have been kept fully informed of our activities. In 2023 and 2024 we have met over 80 politicians including Senedd Members, MPs and local Councillors. This has been critical in ensuring we are open and transparent on these sensitive issues. The level of political scrutiny of us increased markedly following a BBC news item focused on Cardigan wastewater treatment works in west Wales, aired in October 2023. Using information we had put in the public domain, the programme challenged the time taken and regulatory process to deal with the level of storm overflow discharges at the plant which is located on the river Teifi estuary, near where it enters Cardigan Bay.

The nature of the programme created a sharp public focus on us and we were subsequently summoned to attend scrutiny committee meetings at the Welsh Parliament and in Westminster. This was probably the most significant public examination we had experienced for many years as we explained the particular circumstances that affected our works at Cardigan.

The select committee sessions also led to wider questioning about our environmental performance and we were at pains to demonstrate our openness and transparency on these issues. This was acknowledged by Prof. Peter Hammond (part of the BBC team), at the Westminster session, drawing a comparison with other companies who have not always made overflow information readily and publicly available.

The focus on improving coastal and river quality in Wales is different to that in England. The Welsh Government, through its PR 24 'steers' has clearly indicated that reducing environmental harm rather than, for example, purely reducing the number of times overflows operate, is its main priority. This extends beyond overflow operation and during FY 24 the First Minister placed particular importance on reducing phosphate levels in Special Area of Conservation Rivers (SAC), in Wales. This different approach, which we support, is also reflected in our PR24 investment plan, where we are specifically targeting a 90% reduction in phosphate levels on SAC rivers by 2030. We have worked to explain the different approach in Wales to our stakeholders, based on more improvement being achieved with greater certainty if efforts are focused on reducing ecological harm. In Wales 44% of water bodies achieve 'good' ecological status under the Water Framework Directive compared with 14% in England.

However, we do recognise that there are aesthetic and potential public health concerns about SOs, and where particular SOs give rise to such concerns we want to prioritise investment. For the avoidance of doubt, we want to improve the totality of overflow performance, but this has to be a long-term programme due to the scale and configuration of our sewerage system and the costs involved.

The wet weather in 2023 was the main factor causing our wastewater performance to dip compared with the previous year. It is noteworthy that the increased level of storm overflow operation during the wet summer and autumn added to the level of public interest and criticism levelled at us. We very much recognise that societal awareness in this area is increasing and we have sought to explain to all those who contacted us the inherent link between sustained rainfall and overflow operation as an integral element of our legacy sewerage network. In terms of our impact on river quality, our treatment works compliance and number of pollution incidents were also affected by the higher than average rainfall.

We are committed to an open and transparent approach with our customers, regulators and politicians about our environmental impact and performance and we will maintain this to match the level of public concern. In February 2024 we launched the first phase of our 'live' storm overflow reporting programme, whereby almost real-time information is publicly available indicating if an overflow has operated. This initial part of the deployment has been targeted at all inland and coastal bathing locations across our operating area. We plan to include all other overflows in the 'live' reporting programme by February 2025.

CHIEF EXECUTIVE'S MESSAGE
CONTINUED

Looking ahead

Our focus in 2024 and 2025 will be primarily on performance recovery, where we fall short on some of our key regulatory measures. I would reiterate our significant disappointment at being classified as a lagging company by Ofwat and we are expending every effort to return to the levels of service and performance we have previously achieved.

We know where we are off the pace, and have put in place plans and resources to make the necessary improvements.

For our drinking water activities we are targeting improvements as follows:

- Water Quality – increased process control at our treatment works, our extensive treated water storage tank refurbishment programme, targeted mains replacement and improved network maintenance activities.
- Supply Interruptions – a challenging measure for us due to the high operating pressures, rurality and asset condition in our western area touched on above. However, we are implementing increased reactive maintenance resources in the most at-risk areas supported by faster deployment of alternative supplies, such as locally based water tankers and dedicated repair teams.
- Leakage – substantially increased 'find and fix' resources, improved network remote monitoring to better target repairs, our Cartref scheme to help fix customer supply pipe leaks, intelligent network pressure management and mains replacement.
- Per Capita Consumption – year-round customer engagement and communication campaigns, our education programme covering almost 90,000 school-aged pupils in FY 24, private leak repairs, and trials including smart meters and water butts.

> WE ARE COMMITTED TO AN OPEN AND TRANSPARENT APPROACH WITH OUR CUSTOMERS, REGULATORS AND POLITICIANS ABOUT OUR ENVIRONMENTAL IMPACT AND PERFORMANCE.

In our wastewater business we are focusing improvements as follows:

- Waste Water Treatment Works Compliance – improved levels of planned maintenance to reduce equipment failure, additional portable treatment equipment to be deployed at the earliest detection of treatment deterioration, increased process control optimisation/ monitoring with fast escalation of potential failures, improved biosolids (sludge) handling to reduce treatment risk, and targeted capital investment.
- Pollution Incidents – on our sewerage network, increased remote monitors on high-risk sewers and at pumping stations, customer behavioural campaign 'stop the block' to prevent disposal of wet wipes, fat, oil and grease to sewers, targeted sewer cleansing, increased maintenance of pumped sewers and targeted capital investment.

Across the key performance improvement areas outlined above we are also

- applying innovative solutions and new technology, particularly in additional remote SMART monitoring to enable faster and better interventions;
- making full use of our data science capability, such as machine learning techniques, predictive analytics and improved management information to help get ahead of potential problems before they impact service or the environment; and.
- working with over 70 external organisations from leading global expert consultancies, academia and technology businesses, to develop our innovation strategy focused primarily on our most challenging performance measures.

PR24

We submitted our largest ever regulatory investment plan in October 2023 and we were pleased to confirm sector-leading customer support/ acceptability for the plan, recorded at 84%. In addition to the customer research element of the plan, during the year we hosted two online 'Your Water Your Say' sessions for customers to gain an understanding of our proposals. These were challenging sessions with over 50 customers and representatives from environmental NGOs in attendance and we were able to provide clarity and confirmation in terms of our long-term plans.

With over £2 billion of the c.£4 billion total targeted at environmental improvements, other key priorities in our plan include improving service resilience and mitigating climate change risk. On the former, in our water business we are seeking to tackle issues such as the deterioration referred to above in the condition of asbestos cement water mains, particularly in west Wales.

Climate change mitigation is also central to our dam safety investment, where storm and rainfall intensity mean that we will continue a large programme to upgrade these critical assets to deal with new more challenging operating conditions. Climate change is also affecting upland raw water, making it harder to treat and in some cases adding to the challenge of issues such as the aesthetic quality of drinking water. We are investing to mitigate this at our treatment works and in our water mains network.

The key elements to our investment plan will enable us to address the slippage we have suffered against key measures, such as the drop to 2* in the Environmental Performance Assessment. Our main risk here is posed by the potential for serious pollution incidents linked to failures on our large diameter pumped sewage mains. We have included investment to tackle each of these in our plan, along with improving Sewer Overflows.

Throughout our plan we have sought to ensure a clear linkage between the areas where our performance falls short and where investment is needed to support recovery. Technology and more efficient ways of working will also play their part in helping us meet our performance targets and our wider 'AMP8 Ready' plans include these.

Recognising the substantial impact of climate change both on our operations and the communities we serve, our plan also moves further towards our net zero carbon reduction plan.

Investment to improve the environment has seen us submit our biggest ever 'National Environment Plan' at over £1 billion, four times the scale of PR19. This plan aims to improve over 720km of rivers in Wales as well as other key outputs such as reducing by 90% our phosphate contribution on the six Special Area of Conservation (SAC) rivers by 2030.

We constructed our PR24 plan with three key pillars: Financeability, Affordability and Deliverability. Each element was subject to regular scrutiny and review throughout the 2-year period over which we developed our proposals. Externally this was through the Welsh Government 'Wales PR24 Forum' and internally through our Executive and Board processes.

As we end FY 24 we await Ofwat's Draft Determination, due in the summer ahead of us. Having put the plan forward, much of our focus since then has been on how we deliver it. With such a substantial increase in investment and its inherent impact on the organisation and our customers, I am pleased to say that through our asset planning, capital delivery, and procurement teams we have clear visibility of schemes ready for completion out to 2027, and have secured capable resource to deliver the majority of it. By September 2024, all our delivery resource will be arranged to deliver our AMP8 plan.

Our people

In this financial year we have achieved our best ever safety performance with a total of 5 reportable injuries and 17 serious lost time incidents. This continues a trend of progressive reduction over the last decade from 2011 when we had over 30 reportable accidents. A significant amount of effort goes into achieving this high standard of safety performance and I am very grateful to our managers, people, and our safety professionals for their dedication and input. Our 'Safety Takes Every Person' (STEP) training programme is well established and continues to be used to engage our people in contemporary health safety and wellbeing best practices. STEP also underpins our safety culture and longstanding elements of our improvement plans such as our quarterly Executive-led 'Safety Days'. These and the 'Take 5' personal risk assessment process and monthly 'Safety Conversation' engagement plan are helping us firmly embed a safety-first mindset in our people and our contract partners. Alongside our direct safety plan we expend a lot of effort focused on occupational health and wellbeing. We have retained our RoSPA Gold Award and the Welsh Government Platinum Award for occupational health.

Our 2023 Employee Engagement Survey saw an 89% completion rate, our highest ever return and a 75% company level engagement score, matching that of 2022. This was especially pleasing as the backdrop of high inflation at the start of 2023 meant we had to renegotiate our existing pay deal at a time when our people were dealing with a cost-of-living challenge in their home lives. While we were able to reach a sensible and fair outcome for the Company and our people it was encouraging to see our high level of employee engagement sustained.

Other highlights from the 2023 survey were

- 98% of our people are clear about their role in terms of their own health and safety;
- 94% of people believe the Company takes health and safety seriously;
- 91% believe Welsh Water strives to deliver great service to its customers; and
- 80% Would recommend Welsh Water as a good place to work.

In 2024, we will engage our people to develop our 'AMP8 Ready' plans, ahead of the start of the new regulatory period starting in April 2025. Tighter performance targets, greater customer expectations, sustained political interest, and challenges such as our biggest ever capital investment programme, will require the very best capability within the organisation. Our service improvement and cost efficiency plans are dependent on our people, and we will continue to support, develop, and reward our colleagues to meet these challenges. We will also build on our progressive approach with our trade unions to agree the changes necessary to achieve better performance, while at the same time ensuring we maintain our position as a leading employer in Wales through our wider people plan, covering key areas such as equality, diversity and inclusion. Alongside this we will maintain an ongoing commitment to training, personal development, and corporate social responsibility, so that our people continue to give their best and remain proud ambassadors for Welsh Water as a trustworthy provider of essential services and a great employer.

Peter Perry
Chief Executive Officer.

6 June 2024

PERFORMANCE SUMMARY

We present here a summary of our performance in the year. Every year the Board sets annual performance targets for the business with the aim of setting targets that are stretching but deliverable. In determining these targets, the Board takes into account prior year performance, industry comparisons and the performance commitment (PC) levels set by Ofwat for the year in its PR19 Final Determination.

For seven of our key measures, we have been identified by Ofwat as having lagging performance compared with the rest of the industry. As a result, we have prepared a service commitment plan that specifies the actions we will take to get our performance back on track. Our service commitment plan can be found here – https://corporate.dwrcymru.com/-/media/project/files/page-documents/corporate/library/annual-performance-reports/2023-2024/welsh-water--service-commitment-plan.ashx.

Outcome Delivery Incentive expectations

We are forecasting that under Ofwat's Outcome Delivery Incentive (ODI) scheme, we will incur net penalties of some £27 million (FY 23 : £18 million). These penalties will be offset against allowed regulatory revenues for FY 26.

Service delivery

Delivery to customers and communities	FY 24 Actual	FY 23 Actual	RAG[1] FY 24 Act v FY 23 Act	FY 24 BP[2] target	FY 24 FD[3] target	RAG[1] FY 24 Act v BP target	RAG[1] FY 24 Act v FD target	VPS[4]
Water quality (CRI) (%)	**7.74**	5.40	🔴	4.50	0.00	🔴	🔴	A
Acceptability of drinking water (contacts per 1,000 population)	**2.48**	2.35	🔴	2.02	1.75	🔴	🔴	A&L
Interruptions to supply – (minutes:seconds)	**23:16**	44:31	🟢	8:48	5:23	🔴	🔴	A
External sewer flooding (number)	**3,539**	3,634	🟢	3,600	3,379	🟢	🔴	–
Internal sewer flooding (number)	**201**	169	🔴	210	216	🟢	🟢	A
Unplanned outages (%)	**0.35**	1.05	🟢	1.5	2.34	🟢	🟢	–
C-Mex (Rank amongst water companies)	**5th**	4th	🔴	top 3	n/a[5]	🔴	n/a	A
Business customer satisfaction (customer survey score/5)	**4.3**	4.4	🔴	4.4	4.5	🔴	🔴	A
D-Mex (Rank amongst water companies)	**11th**	13th	🟢	9th	n/a	🔴	n/a	A
Vulnerable customers on social tariffs (000s)	**130**	129	🟢	n/a	n/a	n/a	n/a	–
Priority services for vulnerable customers (Reach %)	**11.5**	10.4	🟢	11.5	6.3	🟢	🟢	–
Community education attendees (000s)	**88**	80	🟢	74	74	🟢	🟢	L
Visitors to recreational facilities (000s)	**1,034**	739	🟢	775	775	🟢	🟢	L

NB footnotes 1 to 5 apply to all tables on pages 20 to 23.

1 RAG indicators are 🟢 Green where performance is the same or improved year on year (Y-o-Y), or met or exceeded target, or external accreditation was retained; and 🔴 Red where performance declined or missed target.

2 BP = business Plan target

3 FD = RPR 19 Final Determination

4 VPS indicates measures determining variable pay outcomes (A = annual scheme, L = long-term scheme)

5 n/a indicates no formal plan targets were applicable, or actual results not yet available.

We improved our year-on-year performance for a number of key Service Delivery measures including supply interruptions and external sewer flooding. In spite of these improvements, we are still behind in terms of meeting a number of our Business Plan targets.

Supply interruptions improved markedly year-on-year following fewer adverse weather events. To significantly improve our response times to interruptions, and achieve our business plan, we have begun to establish organisational changes to centralise our response to bursts 24/7 and to optimise the location of our tanker fleet and locally based response teams.

Water Quality performance continues to be a challenge, despite which we have made good progress against our recovery plan through investment in our tank cleaning programme and increasing inspection rates. A single failure at Felindre accounted for more than 3 points in the CRI score and we have increased mitigation onsite to avoid future failures.

Acceptability of Drinking Water challenges originate from the characteristics of our water sources and the age and type of our network. In the year the number of customer contacts increased. Notwithstanding this we remain on track to deliver our AMP Zonal Studies programme that aims to reduce discolouration and improve iron compliance through replacement and cleansing of the network, all of which are expected to improve acceptability of water supply and reduce related complaints

We have broadly maintained customer satisfaction scores in FY 24, achieving 5th place in the sector-wide C-MeX rating. When compared with other Water and Sewerage companies (WASC), with activities more comparable to ours, we are placed 3rd in the C-Mex rating. This is supported by the level of social tariffs we have continued to make available to customers through our HelpU and WaterSure schemes, along with extending our support to more customers in vulnerable circumstances by expanding the availability of our Cymuned scheme. Our reach for priority services for vulnerable customers improved year-on-year and beat both the business plan and FD targets. We also performed well on community education and vistor centre attendees, improving year-on-year and beating targets on both these measures. Our visitor centres welcomed over a million people, boosted by our new centre near Cardiff following our restoration of the Lisvane and Llanishen reservoirs.

Environment

Protecting the environment	FY 24 Actual	FY 23 Actual	RAG FY 24 Act v FY 23 Act	FY 24 BP target	FY 24 FD target	RAG FY 24 Act v BP target	RAG FY 24 Act v FD target	VPS
NRW EPA rating (No of stars)	**n/a**	2	n/a	3	n/a	n/a	n/a	–
Pollution incidents (number)	**107**	89	🔴	81	81	🔴	🔴	A
Leakage (3-yr average) (megalitres per day)	**251.7**	242.0	🔴	239.6	194.7	🔴	🔴	L
Per Capita water consumption (3-yr average) (litres per head per day)	**150.7**	154.8	🟢	149.5	139.0	🔴	🔴	L
Treatment works compliance %	**97.34**	98.50	🔴	99.16	100.00	🔴	🔴	A
Sewer collapses (number)	**223**	248	🟢	265	265	🟢	🟢	L
Kms of river improved	**345**	122	🟢	294	25	🟢	🟢	A&L

The FY 24 actual figures for Pollution incidents and Treatment works compliance are management's best estimates at the date of signing of this report, and are therefore provisional.

Our overall performance on Protecting the Environment measures fell well below our own and our stakeholders' expectations. We are encouraged by the improvement in sewer collapses and continued progress in km of river improved. In May 2023 we released our River Water Quality manifesto which sets out our ambitions and action plan for continuing to improve the biological status of rivers within our area. https://corporate.dwrcymru.com/en/community/environment

Pollution incidents are influenced by a range of factors including blockages and the volume of rainfall along with the measures we have in place to mitigate their impact. During the year we have seen an increase in pollution events with blockages remaining the most significant cause. However, year-on-year the cause of the increase is the number of storm events. We continue to invest to improve performance of this measure including targeting blockage reduction through smart networks, proactive surveying and targeted inspections of high risk areas.

Leakage performance continues to lag our targets and as part of our Service Commitment plans we have set out a clear recovery programme that includes additional leak detection and repair resources, and an upstream losses programme that is focused solely on trunk mains repairs. In the final two years of AMP7 we will invest around £150 million in leakage reduction, one of our largest single areas of investment, evidencing our ongoing commitment to reducing leakage.

While we have improved Per Capita Consumption year-on-year we are behind our business plan. This is also being addressed through our Service Commitment Plan and an additional £5 million investment in FY 25 targeted at a widespread communications campaign focusing on customer behavioural change and smart metering.

PERFORMANCE SUMMARY
CONTINUED

Treatment Works Compliance was worse than both prior year and our business plan target. In total, 14 works out of a base of 598 discharges were non-compliant. The common root causes of these failures include sludge management practices, asset condition and mitigation response times. Our improvement plans include asset health and resilience, additional tanker mitigation and optimisation of existing alarm technology.

The Environmental Performance Assessment (EPA) rating of 2 stars includes a number of measures, some of which are performance commitments included in this commentary. EPA stars are awarded by NRW based on a number of performance criteria. Performance is measured over a calendar year and is reported in July of the following year. We recognise that our current NRW EPA rating of 2 stars remains unacceptable and have developed plans to restore this to our previous level of 4 stars (last achieved in 2020), during AMP 8. See page 91 for further details.

Sustainability

Sustainability	FY 24 Actual	FY 23 Actual	RAG FY 24 Act v FY 23 Act	FY 24 BP target	RAG FY 24 Act v BP target	VPS
Sustainable Fitch rating	**2**	2	🟢	2	🟢	–
GHG emissions (KT CO_2 equivalent)	**201**	169	🔴	n/a	n/a	–
Energy self-sufficiency (%)	**24**	22	🟢	28	🔴	–
Gender Pay Gap (% median all employees)	**4.8**	3.6	🔴	n/a	n/a	–
Equality, diversity & inclusion (% of staff self-declaring characteristics)	**80%**	74%	🟢	n/a	n/a	–
Reportable injuries RIDDOR (number)	**5**	5	🟢	6	🟢	–
H&S accreditation	**ISO45001**	ISO45001	🟢	n/a	n/a	–
Prompt Payment Code	**98%**	98%	🟢	n/a	n/a	–
Fair Tax accreditation	**retained**	retained	🟢	n/a	n/a	–

Our Sustainability metrics relate to our ESG strategy and objectives that are set out in more detail in Appendix E on page 221. These are different to performance commitments and underpin our plans and commitments to act in accordance with our company values and vision 'to earn the trust of customers every day'. The Sustainable Fitch rating for FY 24 is management's best estimate – the 2024 reports will be issued later in 2024.

Financing

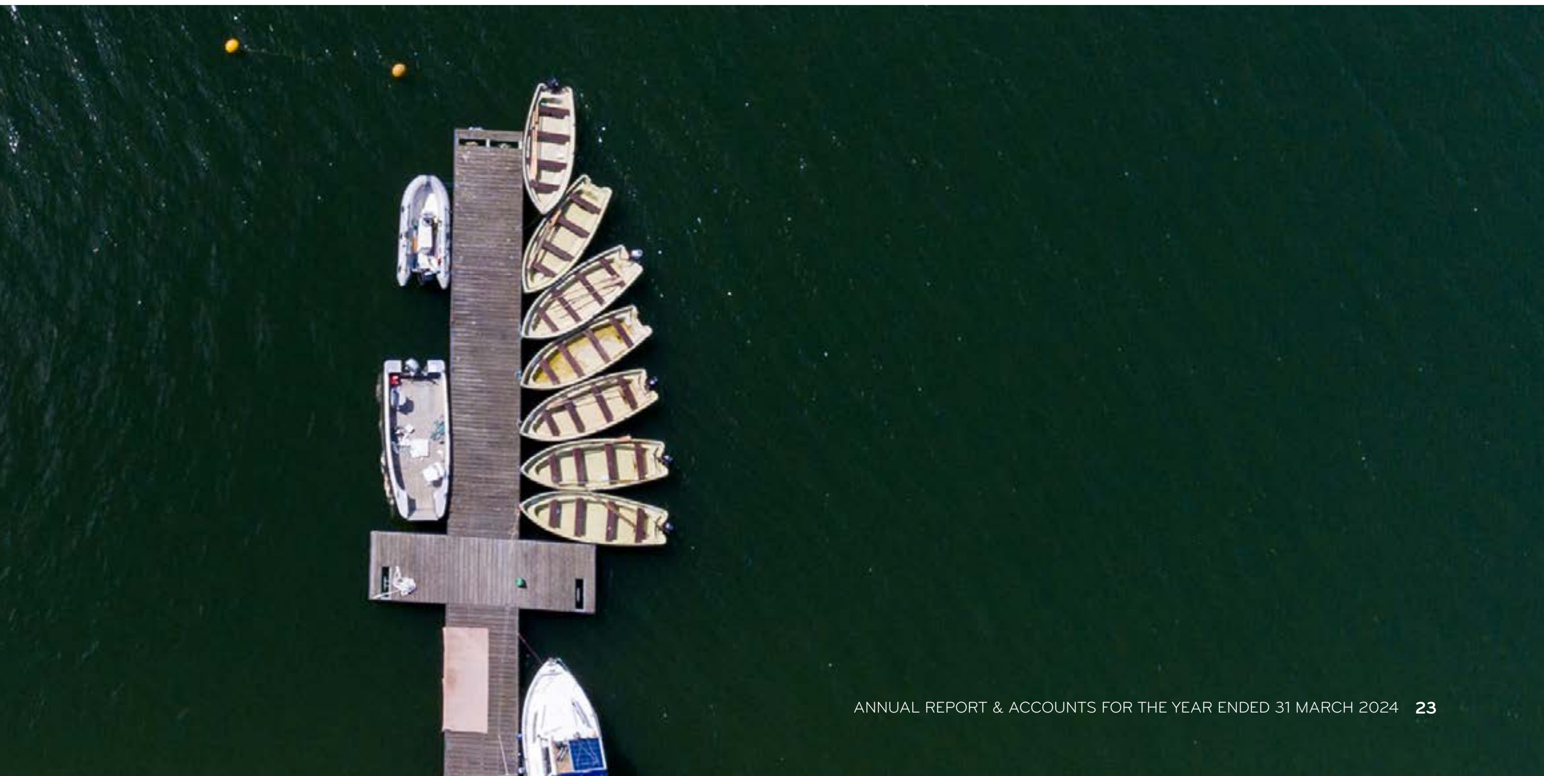
Financing outcomes	FY 24 Actual	FY 23 Actual	RAG FY 24 Act v FY 23 Act	FY 24 BP target	RAG FY 24 Act v BP target	VPS
Credit ratings (Moody's/S&P/Fitch)	**A3/A–/A**	A3/A–/A		A3/A–/A		A
Gearing	**60%**	58%		61%		–
Interest cover ratio (ICR)	**0.7x**	0.4x		1.0x		–
Post-maintenance ICR	**3.0x**	1.7x		n/a	n/a	–
Funds from operations (FFO)/net debt	**0.7%**	(3.8%)		2.7%		–

Our financial position remains strong, stable and sustainable. We are well placed to meet our future financing needs and to continue to support customers who may be struggling financially. Our gearing increased slightly during the year due to our investment plans, and remains in line with the Board's target of around 60%.

Credit rating

Our credit rating remains among the strongest in the sector, so we believe we will be able to effectively raise financing to fund future investments in our services for customers and communities and in protecting the environment.

Read more about our financial performance and position in the CFO's review on pages 24 to 29 and in our long-term viability statement on pages 67 to 71.



CFO'S REVIEW

OUR STRONG BALANCE SHEET AND THE SINGLE PURPOSE OF OUR BUSINESS SET US APART.

Mike Davis
Chief Financial Officer

Against a backdrop of weather-related challenges to environmental performance, the cost of living challenge for our customers, and economic challenges to global financial markets, our strong balance sheet and the single purpose of our business model will allow us to raise our game and deliver the services our customers, our communities, and our environment deserve.

Performance in FY 24

Our financial performance in the year reflected the tailwinds of recent challenging economic conditions, with high inflation at the beginning of the financial year driving higher interest charges and operational expense pressures and declines in real wages placing pressure on the ability of our customers to afford their day-to-day living costs. We do not shy away from recognising that our operational performance has fallen short of both our, and our customers' and stakeholders', expectations in recent years. In response, we have raised the level of support we provide to vulnerable customers, increased investment in support of key operational measures such as leakage and asset resilience and implemented clearly defined and targeted plans to improve operational efficiency. Overall, our profit before interest and tax this year improved by £54 million to £46 million. Our operating cash flow of £381 million was utilised to invest in our capital assets (£382 million), an increase of £75 million from last year. A breakdown of our financial performance can be found on the following pages.

Last year we witnessed significant inflationary pressures and a gradual but sustained increase in interest rates from historic lows, a response from the Bank of England to ease inflationary forces. Whilst we have witnessed some reduction in inflation rates, our debt accretion charges on index-linked bonds remain impacted throughout the year, placing pressure on our net financing cost, Consequently, our net debt on a CTA basis has also increased by £324 million. The impact of a rise in BoE base rates has been mitigated by 94% of our debt being either fixed or hedged in real or nominal terms, reducing our exposure.

However, the fact that the Regulatory Capital Value (RCV) is itself linked to the rate of inflation provides an element of longer-term protection that is not reflected in the income statement, offsetting the impact of inflation on the value of index-linked debt to maintain gearing at levels around 60%, with gearing at 60% this year. This is one of the lowest in the sector and underpins our strong balance sheet, with total available liquidity of £487 million and financial reserves of £1,522 million.

Financial Resilience and Outlook

Throughout this economically challenging time, we have retained our credit ratings at A3, A- and A from Moody's, S&P and Fitch respectively. These ratings continue to be among the best in the UK utility sector. We monitor our financial performance using measures which focus on the covenants included in our whole business securitisation documentation and on the measures required to preserve our credit ratings. Gearing remains low and well within covenant and credit rating thresholds. The continued pressure on our adjusted ICR is principally caused by inflation placing pressure on operating and financing costs. While we recognise this ratio will remain under pressure for the remainder of AMP7, recovery is anticipated early in AMP8. For the outcomes of our financial forecast stress testing, see the going concern note on page 173 and our long-term viability assessment on page 67.

2024 Price Review

In October 2023 we submitted our most ambitious business plan ever to Ofwat, the industry's economic regulator. We are aiming to spend some £4 billion on our infrastructure in AMP8 (2025-2030) – 93% more than we expect in AMP7. This includes £2.5 billion to protect the natural environment. We recognise our world is changing and we must change with it. We have big ambitions to improve outcomes for the environment and the quality of services delivered to customers, minimising service failures. To achieve this, we must also adapt to meet the challenges posed by the trends that are working against us, notably climate change.

Ofwat will publish its draft determination of the AMP8 price control on 11 July 2024, and its final determination in December 2024 which will come into effect on 1 April 2025.

Ofwat Investigation

On 28 May 2024, Ofwat published its final decision following its investigation into Welsh Water's self-declared leakage and per capita consumption misreporting in 2020/21 and 2021/22. Ofwat imposed a nominal fine of £1 together with required undertakings to make customer redress of £40 million which the Company had made of its own volition during 2023 and a commitment to additional expenditure of £59 million on leakage and Per Capita Consumption (PCC) activities during the two years to 31 March 2025. These are materially unchanged from what the Company had proposed to Ofwat in 2023, as reported in the FY 23 annual report and accounts.

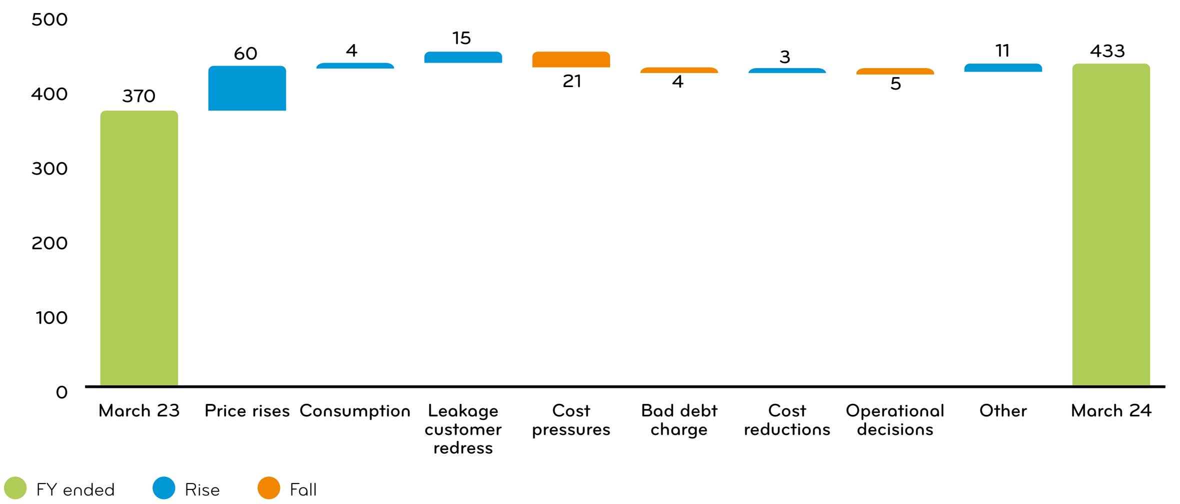
Financing Needs

Over the next few years, we will be looking to refinance some £2 billion of existing debt and raise a further £1 billion of new debt. We expect to issue instruments across a broad range of maturities reflecting the long-term nature of our business, primarily in the sterling bond market where historically there has been strong appetite for our debt. However, we will also explore alternative sources of finance.

Summary of Financial Results and Position

Year ended	31 March 2024	31 March 2023	% variance
Revenue	**928**	844	10%
Operating expenses (incl. other operating income)	**(394)**	(396)	1%
Infrastructure renewal expenditure (IRE)	**(101)**	(78)	30%
Operating profit before depreciation and amortisation	**433**	370	17%
Other expenses (incl. exceptional items and depreciation and amortisation)	**(387)**	(377)	3%
Net finance expenses	**(211)**	(304)	29%
Net gain/loss on financial instruments	**(7)**	160	102%
Loss before tax	**(172)**	(151)	8%
Capital expenditure including intangibles	**(382)**	(305)	25%
Cash (outflow)/inflow in year	**(212)**	(136)	57%
Liquidity (cash and undrawn facilities)	**487**	579	16%
Net debt	**4,503**	4,179	8%
Gearing (%)	**60%**	58%	2%
Credit rating (Moody, S&P, Fitch)	**A3, A-, A**	A3, A-, A	–

Year-on-year operating profit, before depreciation and amortisation (£m)



Revenue

Our revenues mainly come from the water and wastewater services we provide to customers. Our prices are set every five years by Ofwat's price review process and this, to a large extent, determines how much we can invest in our services and infrastructure.

Revenues in FY 24 were 10% higher than in FY 23, mainly due to price rises, which were in line with Ofwat's allowance but notably below headline inflation in the period.

We are acutely aware of the pressures the current cost-of-living crisis, driven by inflation, are having on our customers. We continue to expand our range of assistance tariffs to support customers through this period, with 130,000 customers now getting help to pay their bills, £14 million being contributed through our return of value not-for-shareholder structure during the year.

CFO'S REVIEW
CONTINUED

Operating profit (including IRE)

Our operating profit (including IRE but excluding depreciation and amortisation) for the year increased by £63 million to £433 million. The most significant movements, excluding revenue noted above, related to;

Cost pressures impacted our core operating cost base by £21 million (6%) year-on-year primarily driven by continued inflationary pressures. Gross employee costs increased due to the annual pay award of 6.2%, market rates rises and increased volume of outsourced contractor work on items such as new connections and leakage (53%).

Provisions for expected credit losses on outstanding customer debts have increased by £4 million (14%) to £28 million representing 3.0% of core revenue. The year on year increase principally reflects inflationary price increases to customer bills. We have 75% of household customers on direct debits, and with the help of proactive engagement and tailored assistance, customers who are struggling remain paying whilst being placed on payment plans.

Cost reductions improved our core operating cost base by £3 million with costs from climate change incidents mitigated through investment and maintenance, and the reduction of debt collection commissions reflecting our strategic change to manage debt collection in-house.

Operational decisions increased costs by £5 million, with our workforce, on average, bolstered by 236 FTEs and additional maintenance costs across the operations to protect the environment.

Energy costs have remained stable with our exposure mitigated through our power hedging policy and our self-generation capability. We typically hedge the majority of our electricity costs, saving us around 20% in the year. We continue to benefit from our forward purchase of around 60% of our gas requirement to March 2025. We continue to invest to increase our capacity to generate our own energy, an essential business venture to meeting our green targets, with around 25% of our total consumption produced internally. We aim to increase this to 35% by 2030. We are currently reviewing our purchasing strategy for the next price review period to 2030.

Net Finance Costs

We use a range of financial instruments to help finance our operations. These include fixed-rate and index-linked bonds as well as fixed, variable and index-linked loans and finance leases. All of our index-linked debt is linked to RPI inflation, which remained historically high during FY 24, reducing from 13.5% in March 2023 to 4.7% in March 2024, an average of 7.6%. £127 million has been accrued on the balance sheet and will be paid when the associated debt matures, £65 million lower than last year.

We manage our interest rate exposure using derivative financial instruments. We have swapped some of our floating-rate debt to fixed-rate debt and some of our fixed rate debt to index-linked rates using 'swaps.' After taking into account the effect of these swaps, 82% of our debt is index-linked, with the remainder at a floating (6%) or fixed rate (12%).

Net finance expense was £93 million lower than last year mainly due to £126 million lower delayed debt accretion charges as a result of reducing inflation rates, offset by the rise in the Bank of England's ('BoE') base rate impacting our 6% of floating rate debt.

The total net finance expense of £211 million in the income statement is higher than the £196 million net cash interest paid and settlement of derivative financial instruments per the statement of cash flows. The difference is largely due to £127 million non-cash indexation charges, offset by £19 million of capitalised borrowing costs, £40 million derivative settlements received after 31 March 2024 and £28 million reduction in interest accruals.

The fair value gains recognised during the year relate to the movement in interest rate swaps reflecting increases in long-term interest rates and reductions in Retail Price Index ('RPI') expectations, while power swap values are lower than last year with forecast reduction in power costs and completion of swap contracts. During FY 24 the movement in the value of swaps was a non-cash loss of £7 million (FY 23: gain of £160 million). See Note 4 for further information. Fair values fluctuate in line with market movements, which can be volatile, and this can give rise to significant gains and losses in the income statement.

Cash Flow Statement

Overall, cash and cash equivalents decreased in 2024 by £212 million (2023: £136 million decrease) and details of the principal movements in the cash flow are provided in the table below:

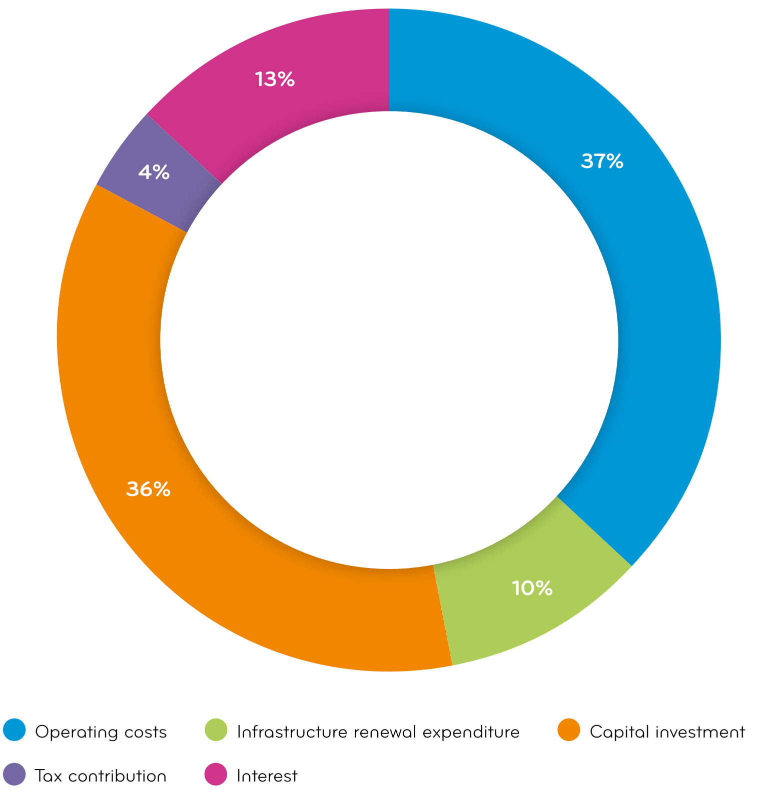
	Year ended 31 March			
Cash movements	**2024**	**2023**	**Change**	**Explanation**
New loan	**150**	–	150	In December 23 the Group took out a £150 million loan for 7 years as part of its Treasury Strategy.
Net movement in borrowings	**(189)**	(76)	(113)	Net repayment of borrowings increased with the settlement of a finance lease contract during the year of £202 million, offset by drawdown of £80 million from the Group's RCF facility.
Net interest paid	**(175)**	(136)	(39)	Net cash outflow in relation to interest increased due to the timing of derivative settlements which were received post year end.
Capex investment	**(380)**	(305)	(75)	Additional capital investment was made during the year reflecting the phasing of capital investment over this AMP period and our progress to our £2 billion capital investment programme. Our total investment is split between capital additions of £380 million (these are added to the balance sheet and depreciated over the assets' useful lives) and infrastructure renewals expenditure of £101 million (maintenance costs which are fully expensed to the income statement upon scheme completion).
Operational cash flow movements	**381**	380	–	Operational cash flow was in line with prior year reflecting a revenue increase of £84 million, offset by an increase in operational expenditure (including IRE) of £21 million and working capital movements of £63 million.
Other	**1**	1	–	Other mainly represents net tax received
Cash outflow in year	**(212)**	**(136)**	**(77)**	

Liquidity

At 31 March 2024, total liquidity stood at £487 million (2023: £579 million) and we held unrestricted cash and equivalents of £167 million (2023: £379 million). We have bilateral revolving credit facilities of £400 million available to us with a group of four key relationship banks (for further details, see Note 16). During the year, these facilities were renewed, increasing their capacity from £200 million last year to £400 million, of which £80 million was utilised, combined with a new loan of £150 million, for the termination of finance lease arrangements of £202 million and to support ongoing operations, part of our Treasury Strategy to utilise cheaper alternative cost of debt options and ensure financial responsibility.

We invest cash prudently, depositing for a maximum of three months, and only with highly-rated banks, withing limits established in the Board-approved Treasury policy. We achieved an average deposit yield of 4.98% during the year, which compares favourably with the BlackRock ICS Sterling Liquidity Fund yield of 4.87%.

What we spent in FY 24 (%)



CFO'S REVIEW
CONTINUED

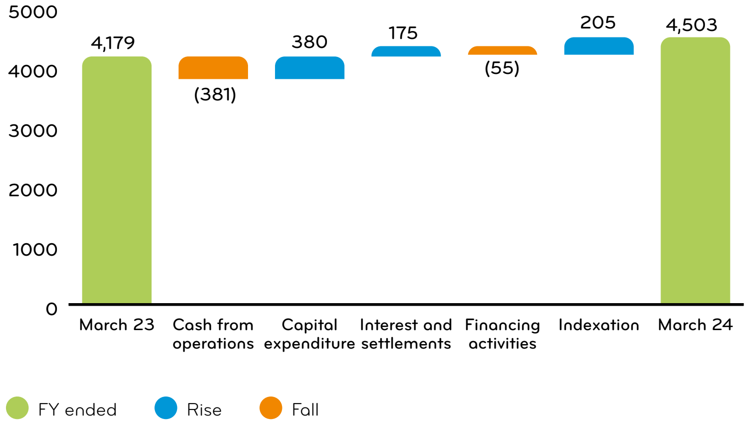
Net Debt

We fund our day-to-day operations and our capital investment programme from a combination of customer bills and borrowings from financial markets and institutions. Our net debt on our common terms agreement basis at 31 March 2024 amounted to £4,503 million, an increase of £324 million on the prior year. Operating cashflows and working capital equated to the amount invested in capital expenditure during the year, with the servicing of debt and accretion of debt being the main contributor for the rise in net debt.

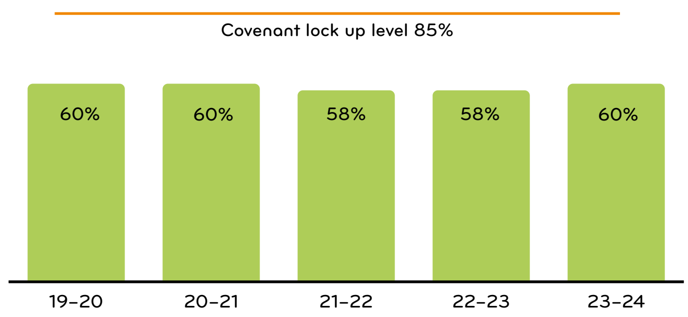
We aim to ensure that enough funding is available to meet our forecast financial needs as well as having an adequate level of headroom for reasonably plausible contingencies. Our average debt maturity is relatively long, at 9.2 years (31 March 2023: 10.4 years), reflecting the long-term nature of our asset base. Under the terms of our whole business securitisation, no more than 20% of our debt can fall due within a rolling 24-month period. Details of our assessments of interest rate and inflation risk are provided in Note 1 and Note 16.

In November 2023, the Board approved our refinancing strategy for AMP8, the five-year period from 2025 to 2030, during which we have around £2 billion of principal debt maturing.

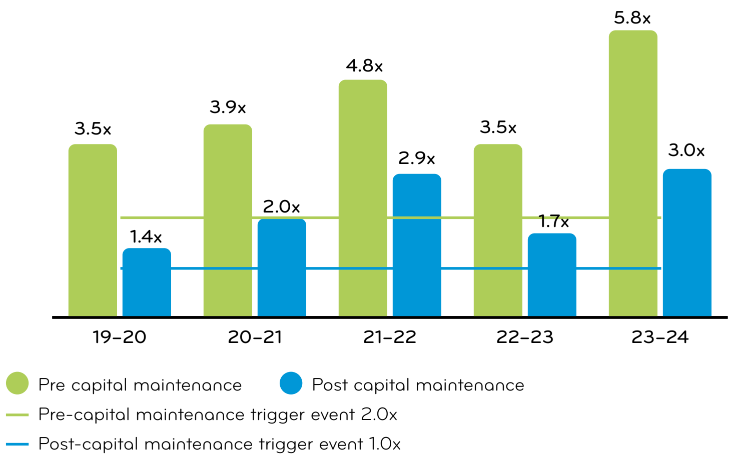
Year-on-year debt movements (£m)



Net debt/RCV



Senior interest cover ratio



Financial Resilience

Under the terms of our whole business securitisation structure, we must maintain gearing below 85%. We therefore have significant headroom to deal with emerging risks.

We remain well within our covenanted financial ratios, notably the ratio of net debt to the Regulatory Capital Value (RCV), a measure of the company's indebtedness relative to the value of the business recognised by Ofwat, and the senior interest cover ratio pre and post capital maintenance, a measure of pre and post capital maintenance cash flows over interest in a given period.

We have retained our ratings this financial year, (Moody's A3; S&P A-, and Fitch A), with these being among the highest in the UK utilities sector. High credit ratings promote investor confidence and allow us to access efficiently priced debt to fund our investment programme whilst keeping bills affordable for our customers.

	Moody's	S&P	Fitch
Class A	A1	AA	A
Class B	A3	A-	A
Class C	Baa2	BBB	BBB+

In February 2024 Moody's updated credit analysis confirmed the Class B debt at A3 and the Class C at Baa2, both with a stable outlook.

In March 2024 Fitch affirmed the Class B debt at A and Class C at BBB+, both with a stable outlook.

The latest S&P rating was completed in November 2022, confirming our Class B debt rating at A- and our Class C subordinated debt at BBB, but revised the outlook from stable to negative. The Class A bonds, which are subject to a financial guarantee from Assured Guaranty UK Ltd, are unaffected by this action.

Dividends

As a company limited by guarantee, no dividends were paid during the year (FY 23: none). No intra-group dividends have been declared and surpluses in the regulated business have been retained for the benefit of our customers. For further details see our dividend policy.

Taxation

No corporation tax will be payable for FY 24. As in previous years, taxable profits are more than offset by capital allowances on our investment programme.

Mike Davis
Chief Financial Officer

6 June 2024

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Strategic Context to Compliance

Part of our ongoing 2050 strategy is to become a world-class, resilient, and sustainable water service for future generations. Tackling climate-related challenges is crucial to our success. The information provided in this disclosure demonstrates the embedding of climate-related considerations into our governance, strategy and risk management processes, and how we monitor progress with appropriate metrics.

Our strategy for managing climate-related risks is being continually refined to align with our goal of achieving energy neutrality by 2050. Our progress in fulfilling our commitments from last year is illustrated in our reporting progress below.

Compliance Statement

Having considered the four TCFD recommendations and the 11 recommended disclosures as well as the 'Guidance for all sectors' as set out in section C of 'Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures', October 2021, here we provide our full TCFD disclosure which is consistent with these recommendations and disclosures. Alongside our TCFD disclosure we have reported in line with the mandatory Companies (Strategic Report) Climate-related Financial Disclosure Regulations 2022 (The UK CFD Regulations).

We acknowledge the significant challenges posed by climate change and are committed to addressing them by adhering to the recommendations of the TCFD. This will provide transparency to our stakeholders and is in line with our dedication to resilience and sustainability.

This is the third annual disclosure of our climate change risks, providing an update on our previous TCFD report published in our 2023 Annual Report.

Our TCFD reporting progress

Since adopting the TCFD framework in 2021, we have consistently made progress against the recommendations and enhanced our climate-related financial disclosures year-on-year. The table below provides an update on our commitments from our disclosure from the previous year.

	We will	Progress
1. Governance	Enhance our monitoring of climate risks, recognising that there is ongoing work to develop our Long-term Delivery Strategy, that will set out trigger points, and further work on transition risks.	As part of our PR24 business plan submission, we considered key adaptation actions to respond to our climate change risks. This included the review of: • Climate Change scenarios mandated by Ofwat, within a Long-Term Delivery Strategy (LTDS). This strategy encompasses adaptive pathways associated with defined trigger points, ensures we invest responsibly in line with our understanding of risk. • Governance surrounding DCWW's adaptation strategy, resulting in the establishment of a Climate Change Committee, which has primary oversight of our strategy and ensures we sustainably meet our strategic goals and public service commitments.
	Build upon our already robust corporate and ESG risk governance by developing our governance mapping. This ensures our Board is fully informed of enhancements to risk monitoring and the establishment trigger points.	We continue to report TCFD risks to our Board's ESG Committee which meets on a quarterly basis, with formal risk reviews every 6 months. We have made significant progress in developing Key Risk Indicators (KRIs) on Climate Change and Carbon targets. Our Climate Change Committee is responsible for monitoring TCFD risks.

	We will	Progress
2. Strategy	Complete a climate adaptation report to articulate our strategy, which outlines our approach to monitor and mitigate priority risks.	We published our first Climate Change Adaptation report in 2023 and expect to update this going forward at least every five years.
	Further develop our mitigation and adaptation strategies (in line with our strategic mitigations identified above) and delivery plans in the context of PR24. DWMP and WRMP published during 2024, reflecting the outcomes of consultations in 2023.	Our Climate Change Adaptation report summarises our progress on strategies and plans, including: • Reviewed and updated mitigation and adaptation strategies • Embedded consideration of climate change scenarios in the work underpinning WRMP and DWMP • Reviewed our Climate Change Planning Policy to ensure each strategy and plan consider the extent to which climate change is likely to influence cost, performance and risk associated with plans resulting from that strategy We have published several strategic documents: • Our PR24 Business Plan 2025-2030 • Our Drainage and Wastewater Management Plan 2023 • Our revised Water Resources Management Plan 2024
	Further develop our scenarios for analysing our risks to accommodate tipping points and greater levels of political and climatic disorder, in line with TCFD guidance on scenario analysis.	Our transition risk scenarios consider RCP (Representative Concentration Pathway) 2.6 in 2030 and RCP8.5 in 2030 and are underpinned by drivers including policy legislation and funding change, technology shift and social behaviour change. Our physical risk scenarios consider low likelihood, high impact changes including warming of more than 4 degrees by 2100 and other major global events. Where available, we consider how these hazards are likely to change in a 2 degrees world by 2050 and a 4 degrees world by 2100
3. Risk management	Develop the financial quantification of risk by March 2024. We will use the multi-capitals approach as part of our improvements to better understand and deal with risk.	Consideration of climate change is embedded into our company-wide Enterprise Risk Management (ERM) framework. We continue to use our ERM risk matrix to score and prioritise climate-related risks in preference to using a multi-capitals approach. The ERM risk matrix severity assessment uses reputational and operational impacts in addition to financial (cash) impacts. Consideration of how best to use the developing multi capital framework for financial quantification of risk.
4. Metrics and targets	Continue to develop short- and medium-term targets for the upcoming price review.	Our PR24 business plan sets out our long-term outcomes supported by short- and medium-term term targets.
	Identify metrics for ongoing monitoring of progress to mitigate our risks and reach our targets.	Targets for TCFD metrics have been established and are forward looking to 2025 in line with our climate change time horizons. Key metrics used to measure and manage physical climate-related risks have been sourced from the Dŵr Cymru Executive team Monthly Monitoring Report (MMR). Transitional risks targets and metrics relating to carbon/adaptation established.

TCFD
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1. Governance

1.1. Summary

Our governance structure has been designed to put great importance on addressing climate change. In addition to dedicated governance focus on risks, we have incorporated environmental considerations into our decision-making processes, to ensure we proactively identify, assess, and mitigate risks with a broad perspective This approach is essential for ensuring the resilience of our operations in the face of challenges such as climate change, biodiversity loss, and the sustainable management of our water resources.

Oversight: The Board

Reviews risks related to climate change on a regular basis, including papers on a range of service and climate-related topics, which support understanding of emerging climate-related risks and issues

Oversight **Reporting**

Oversight: ESG Committee

Develops and oversees the Group's ESG Strategy. Monitors performance against the Company's ESG targets and key performance indicators. Regularly reviews climate-related risks. Approves the approach to TCFD disclosures. Reviews papers on a range of service and climate-related topics, which support understanding of emerging climate-related risks and issues

Monitors performance against the ESG strategy objectives:

1. long term planning and sustainability
2. achieving our net zero carbon strategy
3. adapting our assets and services to mitigate climate change risks, along with subsidiary 'focus areas' and 'measures', which are monitored quarterly by the ESG Committee

Execution: Executive Committee Members and Management's Role

CEO: has ultimate responsibility for the group's preparedness for adapting to climate change and driving our mitigation strategy.

CRO: has executive responsibility for risk management governance including the identification, management and proper reporting of climate-related risks and opportunities.

DCE: Climate Change Committee (sub-group of DCE) has responsibility to review climate change risks and opportunities, and for the development of detailed climate change mitigation metrics and targets

Managing Directors for Water and Waste Services: have responsibility for the implementation of climate change response and the implementation of adaptation plans. Along with the other members of the executive team, they are tasked with managing the risks and mitigating actions, for example by ensuring the company has the necessary resources and skilled people in place to achieve its climate related objective

1.2. Board Oversight of Climate Risk and Opportunities

Climate change and the natural environment represent the biggest challenges we face as a business and impact our strategic themes. The Board's Environmental Social and Governance (ESG) committee is our primary vehicle for overseeing climate risk and opportunities at the Group level, meeting on a quarterly basis and formally reviewing risks every 6 months.

Verbal and written updates are issued to the Board after each ESG Committee meeting, and every Director has access to the minutes and papers discussed. In addition, the Board and the Executive Committee receive detailed updates on strategic and emerging risks every 6 months, 2 of these risks being climate-related (adaptation and carbon targets). Monthly summary risk updates include any significant changes to these risks.

ESG Committee and Board risk reports are reviewed by the Executive Team, who ensure that climate change risks are identified, and appropriate mitigation planned and implemented to achieve sustainability, net zero, and adaptation of strategic objectives. The ESG Committee and the Board also review papers on a wide range of service and climate-related topics, which support understanding of emerging climate-related risks and issues.

Following Executive review, strategic risk and monthly management reports are produced for each of the Board meetings and ESG risk reports are reviewed by the ESG Committee on a 6-monthly basis, with quarterly updates. The Executive Team reviews and develops investment proposals and the delivery strategy for PR24 which is underpinned by assessments of a range of possible future climate scenarios. A high-level summary of these scenarios can be seen in the strategy section (2.1) below. PR24 highlights our strategy for achieving the high-level objective of protecting and improving the environment while ensuring this is delivered in a sustainable way, recognising climate change and the natural environment as core considerations.

NRW's identification of 'Net-Zero' investment as part of the National Environment Plan (NEP) for AMP8 provides us with a clear view of how we should shape our response to the climate and nature emergencies. Last year as part of our PR24 business plan submission, we proposed an enhancement investment of £42 million (capex) for schemes targeted to reduce operational GHG emissions and continue to monitor this against our common Performance Commitment of change in GHG emissions.

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2. Strategy

2.1. Timeframes

We consider our top 5 physical and transition risks and opportunities across the short (through AMP8 from 2025-2030), medium (up to 2050) and long term (up to 2100 and beyond). This aligns with Welsh Water's business planning timeframes and the targets we set out in this disclosure. Review over short and longer time horizons helps us understand our profile of risks over time, recognising, for example, that transition risk needs to be considered in the short term (e.g., consideration of retiring assets early vs locking in emissions with investments), and physical risk is more significant in the longer term.

2.2. Methodology and Assumptions

Our risks are based on the IPCC Representative Concentration pathways (RCPs) 2.6, 6.0 and 8.5. The choice and range of scenarios is based on our understanding of climate science and its applicability to our business planning cycles.

The Representative Concentration Pathways[1] (RCPs) scenario analysis is commonly used across the water industry and is a credible, publicly available tool for assessing future water risks. RCP scenario analysis offers different emissions trajectories which allows us to plan and adapt for varying levels of climate change aligning to our long-term planning strategy. Summarised below are the key assumptions of each pathway and the global mean temperature increases over the 21st century:

[1] UKCP18 Guidance: Representative Concentration Pathways. https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp18-guidance---representative-concentration-pathways.pdf

RCP2.6
- Medium development scenario for population, income, energy, and land use
- Radiative forcing of 2.6W/m^2 by 2100

RCP6.0
- Stabilisation scenario where in 2080 emissions peak then total radiative forcing is stabilised after 2100
- Radiative forcing of 6.0W/m^2 by 2100

RCP8.5
- Worst-case climate change scenario, future energy systems move towards technologies with high GHG emissions
- Radiative forcing of 8.5W/m^2 by 2100

By 2100

RCP2.6	RCP6.0	RCP8.5
1.5 degrees	2-4 degrees	4+ degrees

In planning for unpredictability and sudden shifts in the climate, it is essential for us to consider low likelihood, high impact changes including warming of more than 4°C by 2100

2.3 Our Approach to Scenarios, Analysis and Modelling to Inform Long-Term Planning

The focus of scenario analysis is to understand how our climate may change along with concentrations of greenhouse gases in the atmosphere in the future.

We apply scenario analysis across our main services (water, wastewater, biosolids and energy), considering asset lifecycles and planning horizons. Review over short and longer time horizons helps us understand our profile of risks over time.

To improve our understanding of climate-related risks and opportunities in the short, medium, and long-term and test the resilience of our strategy, we undertook our first Representative Concentration Pathways (RCPs) scenario analysis in FY 22. The impact of climate-related risks and opportunities that may impact Welsh Water requires an analysis of both physical and transitional risks using the following key scenarios:

Physical	• Risks are based on a high emissions RCP8.5 scenario across 2030, 2050 and 2100 • 4°C world by 2100
Transitional	• Risks are based on the RCP2.6 "worst" impact in 2030 and RCP8.5 rapid decarbonisation in 2050

2.4. Considering Climate Change in our Planning

Our Climate Change Planning Policy (2023) continues to be vital in our approach and commitment to consider climate change scenarios in our long-term strategies and plans, including the WRMP, DWMP and the LTDS. These plans assess the long-term risk to specific assets and systems and optimise adaptation interventions to ensure we achieve our ambitions for customer service and environmental performance, as adaptive plans, under a range of climate scenarios. Subject to regulatory recommendations and requirements, Welsh Water strategies will normally use RCP 6.0 (medium-high) as the 'most likely' planning scenario wherever possible but should be "stress tested" against RCP2.6 (low) and RCP8.5 (high).

	RCP 2.6	RCP 6.0	RCP 8.5
Long-term delivery strategy (LTDS)	Quantitative and qualitative assessment used to develop preferred pathway	Regulatory requirements do not require strategy against an RCP 6.0	Quantitative and qualitative assessment
Water Resources Management Plan (WRMP)	Modelling used to inform LTDS	Modelling used to develop preferred investment plan	Modelling used to develop stress-tested scenario
Drainage and Wastewater Management Plan (DWMP)	Modelling used to inform LTDS	Modelling against equivalent scenario used to develop preferred investment plan	Modelling against equivalent scenario used to develop stress tests
Climate Adaptation Report	Not relevant as focus on adaptation in scenarios of significant further climate change (i.e., worse than RCP 2.6)	Quantitative and qualitative assessment	Quantitative and qualitative assessment
Net zero carbon commitments	Assessment of requirements to align with meeting this pathway	Net zero ambitions most relevant for fast transition scenario	Net zero ambitions most relevant for fast transition scenario

To ensure carbon reduction is fully integrated into our strategic decision-making process, the Welsh Water approach to measuring and valuing carbon emissions follows the Department for Energy Security and Net Zero (2021) best practice guidance and uses the most up-to-date carbon values per tonne of carbon dioxide equivalent (tCO_2e). Estimates of embodied and operational carbon sit alongside the private cost estimates for all assets in the Unit Cost Database that are then brought forward into the Carbon & Cost Estimating Tool. Our multi-capital analysis tool for investment planning uses £309/Tonne of Carbon which is a UK Government endorsed figure[1].

1 https://www.gov.uk/government/publications/valuing-greenhouse-gas-emissions-in-policy-appraisal

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2.5. Climate Change Scenarios

During review of our scenarios, we agreed that the Representative Concentration Pathways are still most relevant to our business model and adequately cover the potential impacts of climate-related risks arising in the waste and water industry. RCP scenario analysis offers different emissions trajectories which allows us to plan and adapt for varying levels of climate change aligning to our long-term planning strategy. Climate change modelling is subject to significant uncertainty associated with whether combined global effort is taken to achieve each scenario and the range of possible temperature outcomes.

In line with the RCP scenarios, our risks are assessed across 2030, 2050, and 2100 under the high stress-test 8.5 scenario for physical risks to consider if society does not make concerted efforts to cut GHG emissions. Our transition risks are tested against RCP2.6 in 2030 (stringent mitigation scenario) and RCP8.5 in 2050.

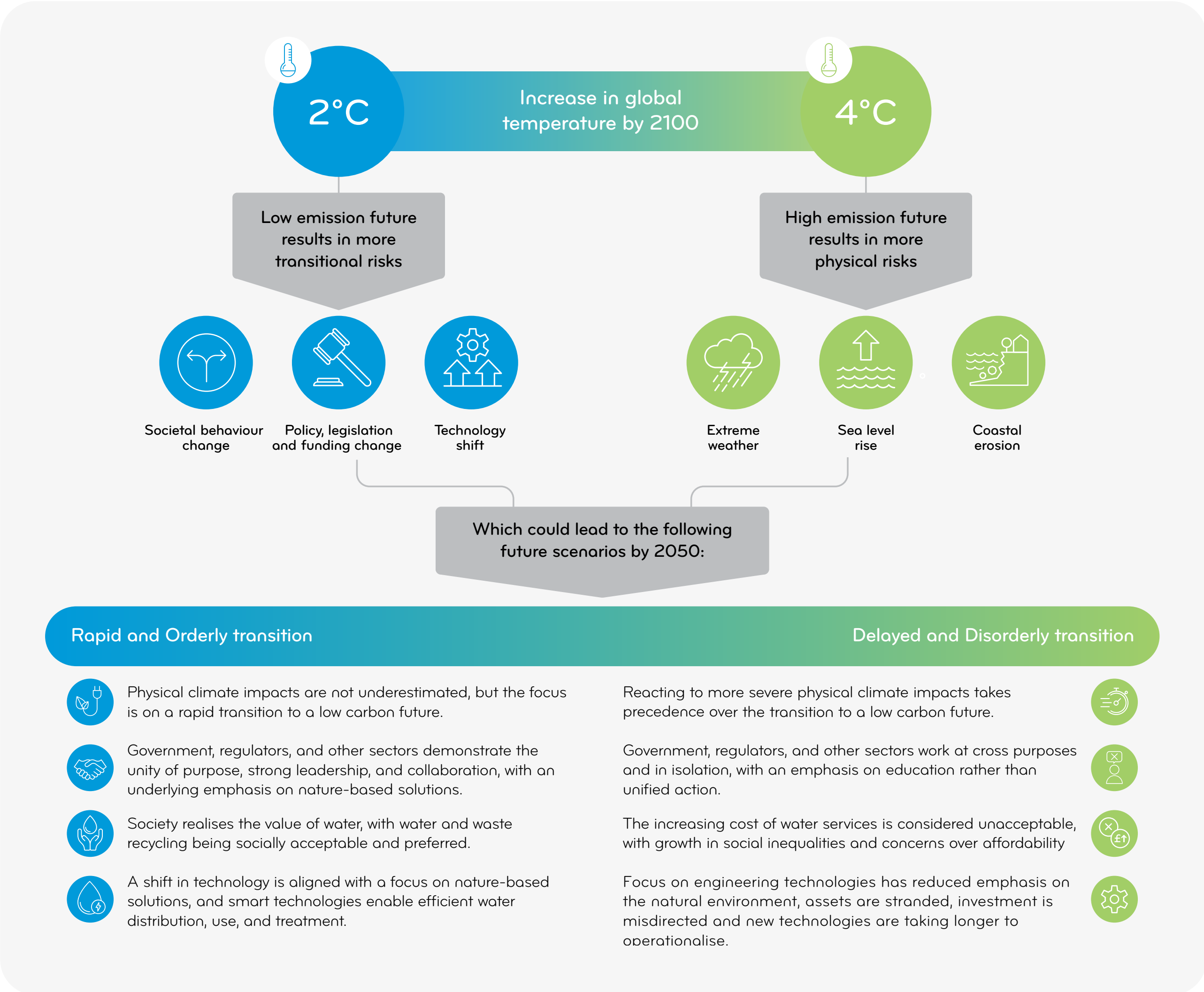
Risk category & drivers	2030	2050	2100
Physical	Unpredictable weather (RCP 8.5 in 2030)	Tempestuous climates (RCP 8.5 in 2050)	Catastrophic storms (RCP 8.5 in 2100)
Floods and storms	Winter rainfall will have increased by 6%	Winter rainfall will have increased by 12%	Winter rainfall will have increased by 22%
Drought and hot weather	Summer rainfall will be down 9% and average summer temperature will have increased by 1.4 degrees	Summer rainfall will be down 21% and average summer temperature will have increased by 2.6 degrees	Summer rainfall will be down 36% and average summer temperature will have increased by 8 degrees
Sea level rise	Average sea level will have risen by 0.11-0.2m	Average sea level will have risen by 0.2-0.398m	Average sea level will have risen by 0.51-1.13m

Transition	Accelerated net zero (RCP 2.6 in 2030)	Delayed and disorderly (RCP 8.5 in 2050)
Legal	UK and Welsh Government policy and regulation incentivises significant reductions in greenhouse gas (GHG) emissions[1] before 2030.	After missing 2050 targets, governments and society are sent into a state of urgency to act, leading to policy and legislation change, generating huge costs for emitting GHGs (greenhouse gas) and incentivising immediate emissions reductions.
Technological	Technological developments are made at speed, fossil fuel intensive items are made redundant, impractical, or too costly to operate and replaced by nature-based solutions and efficient technology.	Technological developments are fast, but supply chains are heavily constrained.
Societal	Social behaviour sets expectations of businesses, and the licence to operate is tied to delivery of net zero commitments. The value of water is acknowledged, and costs are more easily accepted by customers.	Society reacts strongly to climate change impacts and is supportive of climate action. Customers, however, are less willing to accept costs of previous inaction.

1 There are six greenhouse emissions covered by the Kyoto Protocol – carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF6). We often use the shorthand 'carbon' or CO_2e to refer to all of them collectively

By defining the preceding scenarios, we can represent the material drivers of business impacts (shown below in Figure 1). This has enabled us to explore the transitional impacts, which may be greater in a rapidly orderly transition to a low carbon economy, as well as the physical impacts which may be greater in a delayed and disorderly transition.

Figure 1. Material drivers of business impacts



2.6. Resilience of the Business Model and Strategy According to the Scenarios Used

We believe that we have the right strategy[1], including our journey to Net-Zero by 2040, to address the challenges and opportunities arising from climate change. Our long-term strategy, Welsh Water 2050, enables us to respond to customer priorities, and to achieve our vision in the context of a changing world.

However, it is important to note that this strategy will be subject to review in light of the PR24 Final Determination. We further recognise that there are many uncertainties around the potential impacts of climate change and continue to incorporate our scenario modelling in our planning to further understand these impacts. We have assessed risk to enable us to describe the resilience of our climate change impacts, using the RCP scenarios that are publicly available and peer reviewed. The assumptions of these scenarios are outlined on pages 34 to 37.

Our Climate Change Planning Policy (2023) continues to be vital in our commitment to consider climate change scenarios in our long-term strategies and plans, including the WRMP, DWMP and the LTDS. We consider that, based on our current understanding, our strategy is resilient.

Climate change adaptation and transition/carbon targets have been identified as strategic risks and are reflected in our Long-term viability statement (see pages 67 to 71).

[1] https://corporate.dwrcymru.com/-/media/project/files/page-documents/corporate/our-plans/water-2050/welsh-water-2050-review-and-update-2022---english.ashx

TCFD
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3. Risk Management

3.1. Climate Change Risk Management Integration

Risk management is an integral part of Welsh Water's business. Our climate change risks are embedded with our Enterprise Risk Management process which provides a consistent method for identification, assessment, control, monitoring and reporting of existing and potential risks to our business. Ownership and reporting are led by our ESG committee. More detail on the ERM process, including roles and responsibilities, can be found on pages 56 to 66 of this Annual report.

The climate-related risks and opportunities in this year's TCFD report have been identified by considering our climate change scenarios (pages 34 to 37) across the 2030–2100-time horizon.

These risks and opportunities are classified and scored within the ERM framework, enabling the Executive, ESG Committee, and Board to assess risk priorities and significance in the longer term, using risk score and appetite values, supporting an objective assessment by the Board of risks and priorities. Based on this indicative view, we confirm these risks do not present a material risk to the overall operation of the business in the short to medium term. Over the longer term, the level of risk is highly uncertain, and adaptation is dependent on future price agreements and funding.

3.2. Climate Change Risk Prioritisation

Climate change risks can be classified in two major categories:

Transition risks – transitioning to a lower-carbon economy may entail policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, and may pose varying levels of financial impacts as well as reputational risk to the Group.

Physical risks – event-driven (acute) or longer-term shifts (chronic) in climate patterns, causing direct damage to assets and indirect impacts from supply chain disruption. For this disclosure, we have categorised our risks as either acute or chronic however we recognise that our risks can fall under both categories.

Through the identification of the scenarios and risk drivers (outlined in section 3), a long list of risks was developed by mapping asset categories against each of the drivers, to ensure we captured the widest range of risks across our asset base. We assessed risk consequence and likelihood in line with our ERM process, with adjustments made to allow us to better analyse the uncertainties and timescales relating to climate change. These risks were then assessed and prioritised through a series of workshops to identify the top 5 physical and transition risks and opportunities.

Our top 5 physical and transition risks and opportunities remain the same as in our previous TCFD disclosure (2023), with a renewed assessment undertaken for our Climate Change Adaptation report (2023).

We recognise a high level of uncertainty to 2100 and we will continue to horizon scan and monitor a longer list of risks and opportunities which were reported in Appendix A and B of our Climate Change Adaptation report (2023).

3.3. Risks and Opportunities

Our strategic risks are regularly reviewed by the Executive team and Board, two of which relate to climate change adaptation and mitigation (Carbon targets). The management of these strategic risks is fundamental to achieving our key risk objectives, one of which is investor funding, recognising the increasing importance to investors of our ESG credentials.

A comprehensive list of risks and opportunities were identified through the scenario analysis process[1]. In the following tables, these have been summarised into the top 5 risks and opportunities for Welsh Water. To assess the impacts of these risks, consideration was given to quantitative impacts e.g., increase in costs and qualitative impacts e.g., reputational harm.

3.4. Effectiveness of Strategic Mitigations

There is significant uncertainty surrounding residual risk as our mitigations are contingent upon future investment, funding levels and the future climate scenario, which remains highly uncertain even under the most likely RCP projections.

We assessed the likelihood and effectiveness of our strategic mitigations reducing the level of risk across 2030, 2050 and 2100 by considering future climate scenarios and the securing of investment.

There is an underlying risk that the regulatory framework as currently set out will not support funding for the adaptation and mitigation investments we wish to deliver.

1 Climate Change Adaptation Report 2023 | Dŵr Cymru Welsh Water (https://corporate.dwrcymru.com/en/about-us/our-plans)

Primary Rsks: Transition

Scenario and Time period considered	RCP2.6 for "worst" impact transition	RCP8.5 rapid decarbonisation	Not relevant due to the longer timescales
Time Period	2030	2050	2100

Driver	Risk description	Strategic mitigations
Technological	**T1 Inaccuracy of emissions reporting** There is a risk that actual emissions are different to those reported. This uncertainty results in under or over investment in mitigation activities and exposes the organisation to financial impacts associated with the price controls for emitting GHGs.	Investment in better scientific understanding of our emissions, including estimation of our Scope 3 emissions. This should deliver highly robust and complete emission reporting for Scopes 1, 2 and 3 before 2030. Fugitive emissions reduction programme targeting the annual monitoring and reduction of 50,000 tons of CO_2 equivalent. Completing this work followed by our comprehensive investment in automated treatment control and measurement will verify reductions achieved. This will be completed by 2030.
	T2 Inability to adopt new technologies at pace There is a risk that our technological capabilities to support the transition are insufficient to mitigate residual emissions and manage future challenges, e.g. disposal of biosolids, and abating process emissions.	Collaborative innovation programmes, including £37.5 million via the Ofwat innovation fund and partnerships with up to 100 academics and other institutions. Over AMP8, this is proposed to be increased to total of £400m. This will be effective at identifying new opportunities however, it is outside Welsh Water's control what sector-wide innovation projects are chosen.
Regulatory and policy	**T3 Financial impact of extended emissions trading and carbon tax** There is a risk that there is increased legislative and regulatory pressure to enter emissions trading schemes or the enforcement of carbon tax, leading to significant costs.	Sustainable Procurement Policy to strengthen our supply chains and reduce scope 3 emissions. There remains a risk that the Cross Border Adjustment Mechanism for carbon tax on imports, which may come into effect in 2026, places cost pressures on product sourcing. However, the aspirations from our Sustainable Procurement Policy and Supplier Code of Conduct should mitigate this to ensure low-carbon products and services are available.
	T4 Speed of transition raises costs and competition for resources in supply chain There is a risk that policy forces companies to transition at the same time, causing competition for the same resources.	Sustainable Procurement Policy to strengthen our supply chains and reduce scope 3 emissions. Our LTDS incorporates adaptive pathways, allowing us to invest responsibly in line with our understanding of risk.
	T5 Regulatory targets related to embodied carbon are incompatible with the regulatory targets from the NEP. There is a risk that embodied carbon and other targets in the NEP may conflict, leading to a failure to meet targets, resulting in reputation damage and/or negative environmental impact, worsening the outcomes for several other risk areas (e.g. ESG credentials)	Service measure framework development and use to make the case for blue/ green solutions to reduce carbon impacts of interventions and contribute to the Sustainable Management of Natural Resources.

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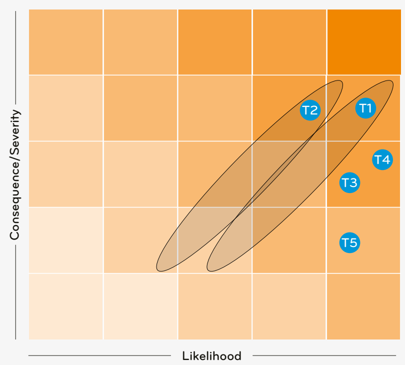
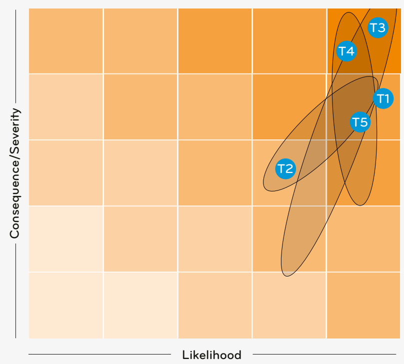
Top **unmitigated** risks under accelerated net zero scenario (RCP2.6, 2030)



Top **unmitigated** risks under delayed and disorderly scenario (RCP 8.5, 2050)



KEY

- T1 Inaccuracy of emissions reporting
- T2 Insufficient technologies available and adopted
- T3 Financial impact of extended emissions trading and carbon tax
- T4 Speed of transition raises costs and competition for resources in supply chain
- T5 Regulatory targets related to embodied carbon are incompatible with the regulatory targets from the NEP

Likelihood

Physical risk: From <1-in-100-year event (low) to 1-in-1-year event (high)

Consequence/severity

The consequence thresholds and risk rating matrix are scored against Operational, Reputational, and/or financial risks in accordance with the Welsh Water ERM framework

Displays the range of outcomes due to uncertainty

Score changes to reflect the latest evidence and our understanding of climate change are summarised on pages 40 and 42.

Risk	Score change	Reason for change
T1	Score increase from 16 to 20.	This is to reflect that as a sector we have underestimated fugitive emissions, and this will need to be corrected in the UKWIR carbon workbook.

Primary Risks: Physical

Scenario and Time period considered	RCP8.5 for 'worst case'	RCP8.5	RCP8.5
Time Period	2030	2050	2100

Driver	Risk description	Strategic Mitigations
Acute-Flood and storms	P1 **Inundation of sewer networks in high rainfall events** There is a risk of sewer inundation during periods of increased rainfall intensity or duration, leading to a flooding event (internal/external flooding), Storm Overflow (SO)discharge.	Sewer network sensor technology and continued use of Event Duration Monitoring (EDM) to provide greater visibility on spilling Storm Overflows (SOs) Provision of DWMP2 by 2027. Our Drainage and Wastewater Management Plan (DWMP) includes strategies for increasing sewer network capacity and sustainable drainage solutions, backed by investment of £420 million in AMP8 and over £4 billion by 2050. We engaged with regulators, stakeholders, and customers to support the development of the DWMP. This shapes how we plan to achieve our end goals and to benefit customers and the environment in an affordable way.

Driver	Risk description	Strategic Mitigations
Chronic-Extreme weather events-drought and hot weather	P2 **Climate change impact on drinking water quality** There is a risk that extreme weather conditions, including drought conditions, increases in rainfall intensity, more extreme wet/dry cycles, and other indirect causes, change the composition of raw water inlet to treatment plants, changing chemical treatment regimes and the ability to treat the same volume of water.	Raw water quality monitoring and modelling programmes. Catchment management, in particular replicating the approach used in Brecon Beacons mega-catchment. Cwm Taf and or similar other water treatment works upgrades. Research and development into algae, their growth and control as well as new technologies like catalysis for the treatment of algae and the chemical compounds produced by them (see Ofwat innovation fund) These measures are likely to be effective by 2030 given the slow rate of decline in water quality. However, in the long term to 2050 and 2100, such measures have not been operating long enough to assess and their effectiveness will depend on the climate scenario.
Acute-Extreme weather events-drought and hot weather	P3 **Increase in customer demand under hot conditions** There is a risk that customers require more water under hot conditions, limiting planned reductions in per capita consumption (PCC) to meet local supply/demand restrictions.	Drought and supply modelling in WRMP. Leakage reduction programme to reduce leakage to 75/85 Ml/d by 2050. Per capita consumption reduction programme to reach 100/110 l/h/day by 2050. Use of technology to develop a smarter network to monitor and react to local supply issues more effectively. These water management strategies are expected to remain effective from 2030-2050 as our water resources management plan forecasts supply demand sufficiency under the most adverse climate scenario. However, to 2100, these will be dependent on the climate scenario, although continuing the water resources management planning approach should ensure this risk is effectively managed.
Acute-Extreme weather events – flood and storms	P4 **Risk to our assets during extreme weather events or sea level rise** There is a risk that our assets (e.g., dams, treatment works, pumping stations, pipework) are impacted by climate change. This can lead to increased pipe bursts and overall asset deterioration. Such events can cause flooding to our assets during high rainfall, resulting in an inability to supply customers or risk environmental harm due to loss of treatment capability.	Asset flood modelling supported by asset resilience investments through the periodic review. River and coastal erosion modelling. Partnership flood alleviation programme. These measures will likely be effective by 2030 given the slow rate of change in flood risk. Assuming funding is secured at PR29 for investment, a programme of flood defence mitigations from 2030-2050 should be effective. Provided this work is undertaken to 2100, then the risk should be mitigated effectively.
	P5 **Risk to infrastructure supply chains during extreme weather events** There is a risk that other infrastructure systems may be damaged or disrupted through the direct impact of extreme weather events (e.g., telecoms, transport, or energy infrastructure). This can cause disruption to our own systems and can lead to an inability to supply our customers and present a risk of environmental harm due to loss of treatment capability.	Engagement with the National Infrastructure Commission for Wales on the interdependencies with key infrastructure providers such as power and transport to understand the system implications. Installing back-up generators on specific sites to improve resilience. Sustainable procurement strategy and implementation. The extent of this risk depends on the Government adopting the recommendations of the National Infrastructure Commission and setting resilience targets for all to follow.

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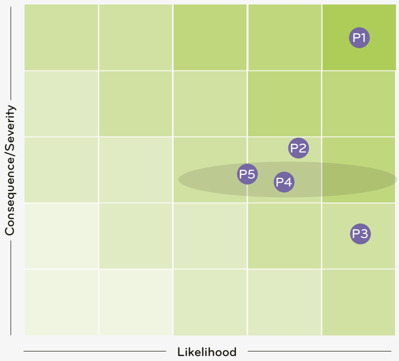
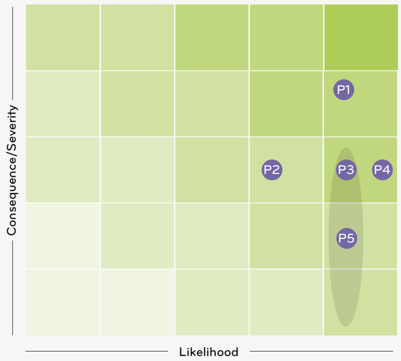
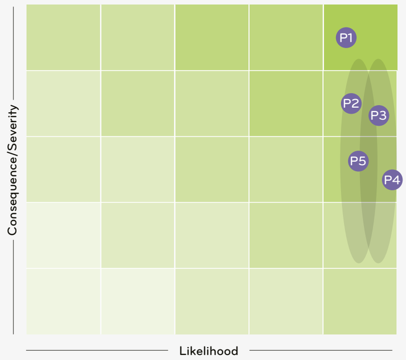
Top **unmitigated** risks under inclement weather scenario (RCP 8.5, 2030)



Top **unmitigated** risks under stormy climates scenario (RCP 8.5, 2050)



Top **unmitigated** risks under catastrophic storms scenario (RCP 8.5, 2100)



KEY

- P1 Inundation of sewer networks in high rainfall events
- P2 Climate change impact on drinking water quality
- P3 Increase in customer demand under hot conditions
- P4 Risk to our assets during extreme weather events
- P5 Risk to infrastructure supply chains during extreme weather events

Likelihood

Physical risk: From <1-in-100-year event (low) to 1-in-1-year event (high)

Consequence/Severity

The consequence thresholds and risk rating matrix are scored against Operational, Reputational, and/or Financial risks in accordance with the Welsh Water ERM framework

Displays the range of outcomes due to uncertainty

Risk	Score change	Reason for change
P1	Score increase from 12 to 25.	This is to reflect our understanding in the Drainage and Wastewater Management Plan (DWMP) of the high likelihood of hydraulic overloading of our draiange systems and the increased costs to mitigate these risks.
P3	Score increase from 8 to 10.	This is to reflect recent summer demand as seen in places such as Pembrokeshire.

Opportunities

Driver	Description of Opportunity	Our Approach To Opportunity Realisation
Technology shift	**O1 Develop innovative technology.** We have an opportunity to develop and deploy innovative new technologies to improve our service now and meet future climate challenges.	This opportunity is best realised through our investment in low carbon technologies, renewable energy and collaboration with universities to enhance our resilience against climate change impacts.
Policy, legislation, funding change	**O2 Implementation of circular economy principles** There is an opportunity to implement circular economy principles, with the co-benefit of reducing associated carbon emissions. Such practice could also create social and economic wellbeing.	Reduction programme to reduce our fugitive emissions by 50% and to increase biomethane/biohydrogen production programme to produce 120GWh per year. Research and piloting programme to explore the use of circular economy in different parts of the business.
	O3 Support for the development of new laws and regulation We have an opportunity to continue to support 'Team Wales', the Welsh Government, and other key stakeholders with positive legislative, policy and regulatory change. This approach can create opportunities for joint management of our risks and opportunities, relevant for managing our interdependent and cascading risks.	We are directly helping the Welsh Government on a host of legislative, policy and regulatory fronts e.g. on the development of nutrient, biodiversity, and carbon trading in river catchments; the provision of WQ modelling; environmental sampling and data gathering; advice on new regulations to improve sustainability in our sector. Such an approach would optimise the use of available resources in Wales.
Policy, legislation, funding change	**O4 Use of sustainable procurement to capitalise on the green economy** There is an opportunity to use our Sustainable Procurement Policy (2023), supported by our environmental stakeholder community, to support Wales' green economy, including for example through local direct wire Power Purchase Agreements or Corporate Power Purchase Agreements.	We have developed and gained approval for our new sustainable procurement policy and are now working with external centres of excellence to help us operationalise the policy and deliver value for our customers. We are also supporting a number of circular economy initiatives, particularly where these align with other performance needs.

[1] Climate Change Adaptation Report 2023| Dŵr Cymru Welsh Water (https://corporate.dwrcymru.com/en/about-us/our-plans)

3.5. Impact Assessment

To quantify the impacts of our principal climate-related risks we adopt an adapted risk matrix from our Enterprise Risk Management (ERM) framework.

The adapted scores consider likelihood thresholds over an extended time period (100 years) to support long-term planning and consequence. Scores are derived from the highest of reputational, operational and financial (cash) impacts to ensure scores reflect the greatest business impact. Scores are unmitigated (excluding controls and enhancements), to support understanding where control focus and investments are required.

The adapted likelihood thresholds reflect the need to assess multiple time periods. We have outlined below the range of consequences that were considered in scoring these risks.

TCFD
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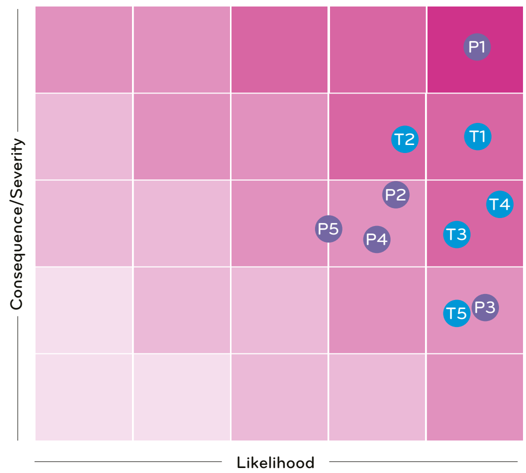
Reputation	Operational	Operational health & safety	Operational organisation	Operational customer service	Financial (cash)
Severe and lasting impact on all relationships of trust	Affecting key stakeholders and significant numbers of customers	Fatality or major incident, e.g. fire/explosion	Significant impact on recruitment and retainment activity	Affecting all key stakeholders and significant numbers of customers: >200,000 customers	>£100m
Impact on key stakeholder, government, or investors	Affective significant numbers of customers and/or pervasive impact on several performance commitments	Life-changing injury/illness or significant incident e.g. RIDDOR Dangerous Occurrence	Impact on ability to retain/ attract key individuals	Affecting significant numbers of customers and/ or pervasive impact on several PCs: 200,000 customers	>£50m–£100m
Impact on key stakeholder relationships	Affecting one, or a few, performance commitments	RIDDOR injury or disease	Impact on morale internally and on external reputation as responsible employer	Affecting one or a few PCs: 50,000 customers	>£25m–£50m
Wider reputational/ trust impact but considered manageable	Significant operational issues but considered manageable	Lost time injury/ work-related illness/ property damage	Wider impact on multiple teams/ functions but considered manageable	Significant operational issues but considered manageable: 15,000 customers	>£10m–£25m
Local/minor impact only	Minor, manageable	Minor injury/ near miss	Impact on team/ function morale	Minor, manageable: <10,000 customers	<£10m



Likelihood		1	2	3	4	5
Physical risk:	**All drivers**	< 1- in 100-year event	1- in 100-year event	1- in 30-year event	1- in 5-year event	1- in 1-year event
Transition risk:	**Policy, legislation, and funding change**	Change in government structure required for this change.	No government appetite, some mass movement organisations campaigning for this change	Government leadership/political party change required to bring in this change	Other jurisdictions are bringing in this policy	Discussions about bringing in this policy
	Technology shift	No known discussions about this technology		Some academic research in this field/technology.		Technology trials are currently in progress
	Societal behaviour change	No examples of these behaviours seen anywhere		Some examples of this behaviour in other geographies		Significant behaviour change evidenced in Welsh Water's areas

3.6. Resilience of the Business Model and Strategy According to the Scenarios Used

We have used our Climate Change Planning Policy (2023) to define the planning assumptions, scenario testing requirements and expectations for adaptive planning for all climate impacted strategies and plans. Planning investment into the design and management of assets, we have set a core planning pathway of the medium-high scenario based on RCP6.0 and will stress test against the more extreme RCP2.6 (low) and RCP8.5 (high) scenarios wherever possible. In line with current Ofwat guidance, this will minimise the risk of under-adaptation of infrastructure in our PR24 planning.

A 'core pathway' plan to 2050 is required for all long-term plans and strategies. This would consist of activities always required irrespective of climate change scenarios, i.e. low or no-regrets expenditure, and activities required to keep long term options open. Adaptive plans will be developed where significant investment is required above the core pathway under one or more of these scenarios to address a high level of divergence in outcomes due to climate change impacts.

4. Climate-related Metrics and Targets

Managing our risks is underpinned by frequent monitoring of our metrics and targets related to decarbonisation and adaptation. We have comparable cross-industry climate-related metrics that meaningfully capture adaptation and achieving our climate change targets. These include a range of measures that demonstrate our ability to provide a high-quality service while minimising our impact on the environment. These are reported annually in our Performance Commitment measures on pages 20 to 23 which provides a transparent assessment of our performance. These performance related measures are incorporated into remuneration policies for Annual variable pay (AVPS) and Long-term variable pay (LTVPS). See pages 144 and 146 for a breakdown of performance against targets under these schemes.

4.1. Our Journey to Net Zero

We have an objective to achieve net zero by 2040 and this will support mitigating our transition risks. To deliver this, we have identified six areas of focus:

1. Reducing use of electricity/purchasing renewable electricity and increasing own renewable electricity generation
2. Reducing fossil fuel use
3. Gradual transition to a low carbon-fueled fleet
4. Actively controlling and reducing fugitive emissions from treatment process
5. Monitoring and reducing construction-related carbon emissions
6. Carbon sequestration

For our detailed scope 1, 2 and 3 emission disclosures and our ambitious plan to achieve net zero by 2040 please see 'ESG Objective 2 Net Zero Carbon on page 78.

Targets across our strategic horizons

2025

- 35% energy self-sufficiency
- 33% reduction in intensity of embodied carbon for individual projects compared to the 2020/21 baseline year

2030

- 50% reduction in fugitive emissions compared to the 2020/21 baseline year
- 50% energy self-sufficiency
- Triple biomethane/biohydrogen production compared to 2020/21 baseline year
- 50% reduction in embodied carbon versus conventional project solutions compared to 2020/21 baseline year

Beyond 2030

- Convert largest N_2O emitters to reactor type treatment
- Zero emissions vehicle fleet
- 90% reduction in embedded carbon by 2040 compared to the 2020/21 baseline year
- Use carbon capture, usage and storage (CCUS) technologies to capture 8,000tCO_2e per year

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4.2. Metrics Used to Assess Climate-Related Risks and Opportunities

This section describes our performance in respect of our climate-related risks and opportunities and outlines the key metrics we use to track our progress against the top physical and transition risks we face.

This table shows the metrics and targets to manage our top 5 physical risks

Risk	Metric	Performance FY 24[1]	Target FY 25
P1	Internal sewer flooding	**203**	**200**
	Risk of sewer flooding in a storm %	**24.88%**	**29.45%**
P2	Acceptability of drinking water (contacts per 1,000 population)	**2.48**	**1.58**
	Tap water quality event risk index (ERI)	**24.14**	**10**
P3	Per capita consumption (l/p/d)	**152.5**	**138**
	Risk of severe restrictions in a drought %	**4.4%**	**0%**
P4	Asset resilience (water network + above ground assets)	**88.4%**	**86.5%**
P5	Treatment works compliance	**97.67%**	**100%**
	Asset resilience (water network + above ground assets)	**88.4%**	**86.5%**

1 Current performance for P1, P3, P4 and P5 measures as at December 2023. Current performance for P2 measures as at February 2024

This table shows the metrics and targets to manage our top 5 transitional risks

Risk	Metric	Performance FY 24	Target FY 25
T1	Reduction of process emissions (CapEx)[1]	**0**	50% reduction in fugitive emissions by 2030[2]
T2	Energy self-sufficiency (%)	**25%**	35%
T3	Percentage of capital projects with low carbon footprint	**40%**	33%
T4	Scope 3 emissions intensity reduction	**0**	7% intensity reduction each year
T5	% Reduction in CO_2 compared with 2010-11 baseline	**65%**	66%
	Environmental Performance Assessment (EPA)	**2-star**	3-star

1 Subject to Ofwat final determination

2 The 2050 Net Zero target that companies in Wales are expected to achieve follows interim target years of 2020, 2030 and 2040

This table shows the metrics and targets to realise our top 4 opportunities

Opportunity	Metric	Performance FY 24	Target FY 25
O1	Meters installed	**48%**	51%
O2	Bioresource product quality %	**99.5%**	97.3%
O3	Water catchments improved	**23**	18
	Km of river improved	**345**	418
O4	% Reduction in CO_2 compared with 2010-11 baseline	**65%**	66%

The table below outlines our measures in managing climate-related risks and opportunities

Risk	Description of measures and targets
P1	Measuring internal sewer flooding allows us to understand the extent of the impact of this risk on the community and the customers we serve. We have set a target for 2025 of 200 (number of incidents). The resilience measure, risk of sewer flooding in a severe storm, is a key element in our long-term strategy of reducing flood risk. This measure is the percentage of the population at risk of a sewer flooding in a 1-in-50-year storm.
P2	Measuring the acceptability of drinking water is a top priority for our customers. It is important that we provide water which not only meets quality standards but is acceptable to customers. We have set a target for 2025 of 1.58 contacts per 1,000 population served. This is supported by the Event Risk Index (ERI) to measure our response to drinking water quality events and assess the impacts of events on consumers. We have set a target score for 2025 of 10.
P3	Per Capita Consumption and the risk of severe restrictions in a drought serve as valuable measures by informing demand monitoring and drought preparedness. We have set a PCC taget for 2025 of 138 l/h/d.
P4	The water network and above ground assets resilience measure allows us to identify a risk of major customer impact in extreme circumstances. These are the assets where a failure leads to interruptions to customers' water supply.
P5	The water network and above ground assets resilience measure is used in conjunction with treatment works compliance to understand the risk of an inability to supply our customers and where compliance failure would have the most significant impact on the environment.

Risk	Description of measures and targets
T1	In our PR24 submission, in AMP8 we proposed to invest £38.55M in CapEx (post frontier shift and real price effects, and in 2022/23 price base) towards an investment package for a reduction in process emissions. This investment package aims to enable measuring and controlling of fugitive emissions, such as nitrous oxide (N_2O) and upgrade the level of confidence in reporting. We have set a target to achieve a reduction of over 50% by 2030, which supports the interim targets (2020, 2030 and 2040) with respect to Net Zero that companies in Wales are expected to achieve.
T2	Energy self-sufficiency is an exciting area for us and our customers, as new technological opportunities are continually presenting themselves. Therefore, this measure serves as an indicator of our commitment to supporting the transition to net zero and adopting energy-efficient technologies.
T3	Monitoring the percentage of capital projects with a low carbon footprint will support our goal of reducing greenhouse gas emissions and ensure our capital investments align with emission reduction targets, mitigating the risk of non-compliance with potential emissions trading schemes or carbon tax requirements.
T4	Scope 3 relates to upstream and downstream emissions from supply chain activity or customer use of products and services. This measure will provide visibility into supply chain emissions and help to identify areas where technological solutions are lacking or insufficient to mitigate residual emissions.
T5	Through monitoring our reduction in CO_2 emissions, we are able to measure progress against the broader goal of Net Zero by 2040 and by the end of AMP8 ensure our targets align with those set by regulatory bodies and the NEP. Our impact on the environment is assessed through the Environmental Performance Assessment (EPA) and we will target a 3-star score.

TCFD
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Opportunity	Description of measures and targets
O1	Measuring the percentage of household customers metered demonstrates our progress towards realising this opportunity and improving the monitoring for water consumption to create a more sustainable and resilient water future.
O2	This measure is the percentage of Wastewater sludge producing an enhanced Biosolids Assurance Scheme (BAS) accredited Biosolids product. This provides an indicator of the extent to which circular economy principles are being implemented in wastewater treatment and biosolids management.
O3	This opportunity is measured through our ESG objective of Long-term planning and sustainability. Our focus area for this objective is Working with 6 Nutrient Management Boards, and other third parties, to enable sustainable developments in the Wye and Usk catchments. The measure Km of river and water catchments improved assesses our progress against this objective.
O4	Our ESG objective of Demonstrating accountability has a focus area to re-issue the supplier code of conduct to include our Sustainable procurement aspirations in 2024. We will measure the effectiveness of sustainable procurement in our supply chain through our reductions in CO_2.

4.3. Greenhouse Gas (GHG) Emissions and Targets

The UK Water Industry Research Limited developed a standardised workbook & associated methodology for estimating Operational greenhouse gas, GHG, emissions, called the Carbon Accounting Workbook, CAW, to bring consistency and accuracy to the reporting process across the water industry. It is updated annually to reflect latest UK Government emissions factors. Our data is reported annually to ISO 14064 carbon reporting standard.

In assessing progress against our target to be net-zero by 2040, we report our detailed performance against our Scope 1 and 2 emissions, and the six material Scope 3 categories to our sector- fuel and energy related activities, upstream transportation and distribution, waste generated in operations, business travel, downstream transportation and distribution* and, end-of-life treatment of sold products**, on page 79 of this report. For the avoidance of doubt, the Scope 3 emissions exclude categories 7, 8, 10, 11, 13, 14 and 15 on the grounds of materiality and being outside our operational control. A summary of our FY 24 and prior years operational (waste and wastewater) emissions is shown below:

Gross annual operational GHG emissions (all values in Kilotonnes of CO_2 equivalents)	FY 24	FY 23
Scope 1	62.1	62.5
Scope 2 (location-based)	91.6	90.7
Scope 3 (location-based)	66.2	15.8
GHG efficiency ratios ($kgCO_2e$ /Ml)		
Emissions per Ml of drinking water	38	4
Emissions per Ml of wastewater	79	102

	Near-Term/ Interim Target	Long-Term Target
Scope 1	50% reduction by 2030	Net-Zero by 2040
Scope 2	0 by 2035	0 in 2040
Scope 3	7% intensity reduction each year under the UNFCCC Race to Zero pledge	Net-Zero by 2040
Energy self-sufficiency (%)	2025: 35%	2050: 50%
% Reduction in CO_2 compared with 2010-2011 baseline	2025: 66%	2050: 100%

4.4. Methodology of Measures

The Outcomes performance commitment appendix[1] sets out detailed information on the measures used to assess the climate-related risks and opportunities on page 46.

1 Outcomes performance commitment appendix | https://www.ofwat.gov.uk/wp-content/uploads/2019/07/PR19-draft-determinations-D%C5%B5r-Cymru-Outcomes-performance-commitment-appendix.pdf

* In Scopes 1 and 2 as these relate to our water supply activities

** In Scopes 1 and 2 as these relate to our wastewater treatment activities

How We Plan

Long Term

Welsh Water has a long-term strategy – Welsh Water 2050, first published in 2018. It outlines the key challenges and opportunities for the business over the long-term, and how we plan to respond to them to ensure we continue to provide a resilient and sustainable service. The strategy undergoes a full review and update every five years, with the first review having taken place in 2022.

Alongside Welsh Water 2050 (WW2050) we launched our Wellbeing Commitments in 2020. (These were the Welsh equivalent to the Public Interest Commitments published by water companies in England in 2019.) They are aligned to the seven Wellbeing Goals identified in the Wellbeing of Future Generations (Wales) Act.

Our Environmental Social and Governance (ESG) Strategy was reviewed and approved by the Board's ESG Committee in February 2022 (and is available to view at dwrcymru.com/esg). It includes 10 key objectives to support the focus on ESG issues in the context of Welsh Water 2050.

The Long-Term Delivery Strategy (LTDS) was developed alongside the PR24 Business Plan, meeting a requirement of Ofwat's PR24 methodology. It is focused on the enhancement investment required to meet agreed long-term outcomes to 2050 under a range of scenarios.

For WW2050 strategic responses see Appendix D on page 219). For our ESG objectives see Appendix E on page 221.

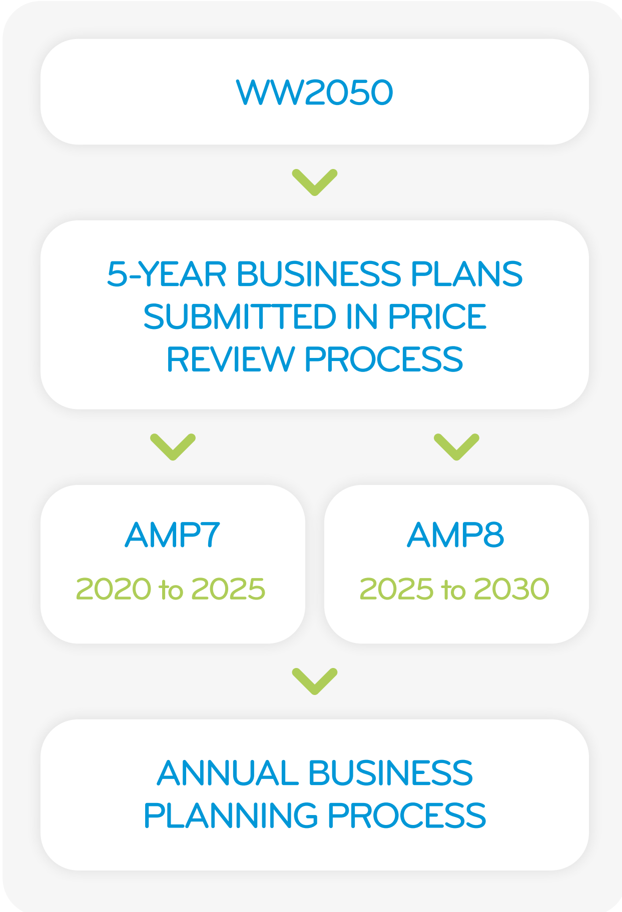
Medium Term

AMP7 Business Plan (2020-2025): After consulting our customers we agreed with Ofwat (under the PR19 process) a 5-year programme for 2020-25 involving more than £2.0 billion in capital investment. It includes real-terms bill reductions, efficiency improvements, and a total of 56 performance and investment delivery targets for each year of the period.

The PR24 Business Plan for the next five-year period 2025–2030 (AMP8), was submitted in October 2023 for scrutiny and challenge by Ofwat. It is aligned with our long-term goals under WW2050.

Short-Term

Our annual internal business plans set targets which are stretching but deliverable taking into account the previous year's performance and performance commitment targets set in the most recent price review.



LONG-TERM PLANS: WELSH WATER 2050

Welsh Water 2050 identifies the trends, challenges and opportunities that we expect to be foremost in the years to 2050, and 18 strategic responses we are pursuing over that period in order to become "a truly world-class, resilient and sustainable water service for the benefit of future generations".

For convenience the strategic responses are set out in Appendix D of this report – see page 219.

Any planning over such a long horizon is inherently subject to a high degree of uncertainty. While we broadly expect the core themes and trends to endure, we also monitor and update them through 5-yearly reviews broadly aligned to the regulatory Price Review cycle. The last published update is available at https://corporate.dwrcymru.com/en/about-us/our-plans

Our business plan submitted under PR24 is underpinned by Welsh Water 2050 and is consistent with our Long-Term Delivery Strategy – a new planning framework required by Ofwat as part of the price review submission.

S172 STATEMENT

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

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

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

Set out below is an overview of how the Board has performed its duties in this regard during the year. For further information, please see the Governance Report on pages 92 to 156.

Engagement with our stakeholders plays a vital role in our decision making, with all Board agenda items considering the interests of stakeholders and the impact on them of our decisions. While we aim to maintain a diverse range of skills, backgrounds, and experiences on the Board, we also value hearing directly from our stakeholders throughout the year. The Board continues to seek new ways of engaging with the varying perspectives of our Customer and Community stakeholder groups, including those engaged with our Developer Services, and with Suppliers.

The Board's Obligation to Promote the Long-Term Success of the Company

As a customer-led business, addressing the long-term impacts of our operations on our communities and the environment are central to our strategy. Delivering that strategy necessarily involves fostering relationships with governments, regulators, suppliers and customers, but also critically depends on colleagues across the business and on our supply chain.

Customer Engagement

The customer voice is represented through the Independent Challenge Group (ICG).

Board Members attended "Your Water, Your Say" events in April and November 2023 to allow customers and other stakeholders to pose questions about issues that are important to them, including priorities for the future as we develop our business plans for 2025-30.

Stakeholder Engagement

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

During FY 24, the Quality and Safety Committee heard directly from Directors of Natural Resources Wales (June 2023) and the Chief Inspector of the Drinking Water Inspectorate (March 2024). The Chair participates in regular meetings chaired by the Chair of Natural Resources Wales alongside the Chairs of Ofwat and Hafren Dyfrdwy to review progress in improving river water quality in Wales. The Chair also attends periodic meetings of chairs of water companies across England and Wales with the Chairs of Ofwat and the Environment Agency to discuss issues affecting the water sector, and the CEO attends similar meetings of the Board of Water UK alongside other water company CEOs. The CEO has attended the Phosphate Summit meetings called by the First Minister of Wales to improve river water quality and presented on the contribution by the company to its achievement. The Chair, CEO and CFO have met periodically during the year the Welsh Government Cabinet Secretary for Climate Change for Wales alongside officials of Welsh Government to review the company's progress against its objectives in the context of Welsh Government policy on water.

Throughout FY 24 the Group, and the Water Industry generally, has been the subject of intense media and public scrutiny. In the face of this challenge our executive colleagues, notably the CEO and our Managing Directors for Water and Wastewater, have made a concerted effort to devote time to meeting with interested stakeholder groups across Wales to better understand their viewpoints, concerns and needs. Among other groups, considerable time has been spent with groups and individuals with concerns linked to pollution and river quality, including detailed engagement to inform the development of the Group's live Event Duration Monitoring website which provides live data on the frequency and duration of releases from storm overflows.

Board Members attended the Drinking Water 2022 (Wales) presentation by the Chief Inspector Drinking Water in July 2023 which provided an overview of the quality of public and private water supplies in Wales.

Supplier Engagement

Supply chain risk is noted as one of the principal strategic risks reviewed by the Board, and the Board receives monthly reports via the Monthly Management Report (MMR) from the Commercial Director, including an update on any procurement or key supplier issues. This has been a particular focus of Board attention over the past year in order to ensure the availability of appropriate skilled competitive supplier resource to deliver the planned material increase in the capital investment programme during AMP8. This helps ensure that the services provided to customers, the delivery of our investment schemes, and the provision of other goods and services, are in line with our expectations and Company values. Board members also meet regularly with representatives of contractors working on our Capital Projects programme when attending site visits. We have a Supplier Payment Policy and we are a signatory to the UK Government Prompt Payment Code (see page 75 for details).

S172 STATEMENT
CONTINUED

Employee Engagement

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

The Chair of the Board and Non-Executive Directors meet regularly with groups of colleagues from all business areas. These meetings are informal without a fixed agenda providing the opportunity for colleagues to raise issues with Non-Executives and for the Board to understand at first-hand what is top of mind for colleagues. Notes of the topics discussed at these meetings are taken and shared with other members of the Board at the next Board meeting. These colleague meetings are typically held remotely rather than in person, enabling a wide geographic spread of colleagues. Separate meetings are also arranged with managers across the business, by way of informal managers' lunches with the Board, which provide colleagues with the opportunity to discuss existing and emerging issues with Board members, and for Board members to receive direct feedback and insight.

The CEO, CFO and members of the DCE also participate in annual Employee Roadshows across its operational area. During FY 24 approximately 2,000 colleagues attended the Employee Roadshows and received key updates on strategic and operational plans and were provided the opportunity to raise questions and provide valuable feedback.

Engagement with Glas Members

The role of Glas Members is set out on pages 97 and 110 of our Governance Report. Our Members are drawn from across our supply area and the Independent Membership Selection Panel (IMSP), chaired by Sir Paul Silk, aims to ensure a broad spread of background, skills and experience within the Membership.

Debra Bowen Rees, one of our Non-Executive Directors, is a member of the IMSP and, therefore, has a particular connection with the Glas Membership.

The Panel carries out an annual recruitment process to refresh the Membership as Members step down (after a maximum 9-year term). The Board meets with our Members in July and December each year and welcomes input and constructive challenge from Members on key strategic issues at these meetings, where there is always an opportunity for Member feedback and discussion. In addition, Regional Members' Meetings at 3 different locations across our operating area are scheduled twice throughout the year to provide Members with key operational and strategic updates and act as a forum for further engagement with and challenge from the Membership to the Board and DCE.

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

Engagement with the Independent Challenge Group (ICG)

The ICG comprises customer and environment advocates from a broad variety of backgrounds. It meets regularly to review and comment on customer research, strategy, policy, and initiatives. The Chair of ICG attended the PR24 Customer Insight agenda item at the June 2023 Board meeting to provide an independent overview of the customer engagement and research that had contributed to the Group's PR24 business planning process, identifying the key priorities for customers that needed to be reflected in the Group's business plan.

Engagement with the Independent Environmental Advisory Panel (IEAP)

The Panel includes representatives from environmental non-governmental organisations (NGOs), academics and third sector organisations. The independent Environmental Advisers to the Board's Quality and Safety Committee (QSC) attends meetings of the IEAP and reports back to the Quality and Safety Committee on issues of relevance to the Committee.

Engagement with Glas Cymru investors

During FY 23 members of the Board and DCE attended the Group's Annual Investors Meeting in London. The Group's Treasury team is also in regular contact with investors and credit rating agencies throughout the year. All formal communications with investors are approved by the Board, and investors receive a six-monthly Investor Report on which they are welcome to follow up with the Treasury team.

The Role of the DCE

The Dŵr Cymru DCE (the DCE), which is led by the Chief Executive and includes the Chief Financial Officer, is responsible for the operational management of the Group. The Team is designated as senior management for the purpose of the UK Corporate Governance Code but not for the purposes of section 414C(8) of the Companies Act 2006. The DCE comprises the senior functional management roles and those with responsibility for interacting with the Company's principal stakeholders.

Our Managing Directors for Water, Waste Water and Retail (Household Customers) attend all Board meetings.

The Role of the Board

The Board oversees measures to ensure that stakeholder interests are always considered. Papers prepared by management for Board approval include information on relevant stakeholder considerations to be discussed as part of the debate when making decisions. This is to ensure that sufficient attention is given to stakeholder concerns, and that the interests of all relevant stakeholders are considered in the Board's decision making.

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

By direct engagement with employees through employee engagement sessions, informal meetings with managers, and by conducting operational site visits (see page 110 for more details) the Board is able to see and experience at first hand how our culture and values are applied across the business. Maintaining an effective and distinctive culture within Welsh Water, under our not-for-shareholder constitution is a key component to support the delivery of our strategies and the Board's decision making to promote the long-term success of the Company. Read more on our culture and values at pages 05 to 12 of this report.

Board decision making in relation to our stakeholders during FY 24

Decision	Discussion topics	Action taken following Board decision as a result of stakeholder feedback
River Water Quality	Response to public and regulatory concern about sewage pollution: Publication of near real time Strom Overflow data.	Following detailed stakeholder and customer engagement the Board approved the launch in February 2024 of the Group's near real time Storm Overflow Map. This launch was a further demonstration of the Group's commitment to being open and transparent in line with the expectations of customers and stakeholders.
	First Minister's Phosphate Summit (March and December 2023).	Board members attended each Summit and contributed to the Action Plans agreed at the Summit. The Group continues to be a significant contributor to the 'Teifi Demonstrator Catchment' Project, which seeks to develop and implement innovative solutions to improve river quality within the River Teifi and act as a pilot for similar collaborative projects on other rivers.
Cost-of-Living Increases	Supporting our customers through our Vulnerable Customer Strategy	The Group has approved continued investment and resource for its Social tariff initiatives including the introduction of the Cymuned scheme which provides financial support for qualifying working households who are struggling to afford to Cost-of-Living increases. Feedback received through stakeholder engagement will be incorporated into an updated Vulnerable Customer Strategy for 2024 which will continue to support customers into AMP8.
PR24 Planning	Customer and stakeholder engagement.	The Board's Insight into our customer and stakeholder priorities, gained through customer engagement and research, and participation in the Wales PR24 Forum, has been used as part of our PR24 planning.
Estates Strategy	Harmonisation of land management, water catchment, biodiversity, and net-zero strategies.	Through engagement and collaboration with land owners, to harmonise land management with water catchment, and proactive dialogue with national parks and regulators an updated Estates Strategy was developed and approved by the Board. This seeks to support the Group's 2050 vision by leveraging land holdings to optimise customer wellbeing, promote healthy lifestyles, foster biodiversity, and support ecosystems.
Leakage reporting	Misreporting of leakage and per capital consumption during FY 21 and FY 22 identified in May 2022	Following the outcome of the Ofwat investigation the CEO expressed regret to all its stakeholders for what had happened. The Group has provided appropriate redress to all its customers, committed to a substantial increase in investment in this area, and strengthened relevant operational teams to meet planned reductions in leakage and per capita consumption.
Staff Benefits	Provision of Private Healthcare for all Staff Members.	Following feedback received from Glas Members, the Group approved the provision of paid for private healthcare for all Group staff members.

THE VALUE OF GOOD ENGAGEMENT WITH STAKEHOLDERS

We aim to establish and maintain with all stakeholder groups mutually beneficial relationships based on our values of openness, honesty and trust.

This is achieved through an ongoing engagement strategy which is overseen by our ESG Committee, which reviews and monitors progress against our engagement plans. This is presented in the form of a stakeholder matrix which is organised by our communications team who, alongside members of the DCE, are responsible for handling relationships with our key stakeholders including the Welsh Government and our regulators, to maintain a positive 2-way dialogue to help implement our business plans and support the wider 'Team Wales' policies where appropriate.

A high-level view of the value we create for our stakeholder groups is included in our business model on page 10. The table opposite on page 55 is based on the stakeholder matrix regularly provided to the ESG Committee and sets out our stakeholder engagement activity in FY 24, alongside our stakeholder groups' interest and our engagement objectives.

STAKEHOLDER ENGAGEMENT DURING THE YEAR

Stakeholder group	Their interest	Our objective	How we engaged
Financial and Investors	Secure and dependable investment with a strong understanding of our Strategy, performance, ambition and culture, reflected in a positive ESG agenda	To ensure financing is available when needed at an appropriate cost and in accordance with our ESG Investment Policy	We have a comprehensive programme of investor engagement including site visits and regular dialogue to update them on financial and operational performance, risks and potential mitigating actions.
Our People	Employment with a trusted and reputable employer that does the 'right thing' for customers, communities and the environment	To motivate, support and empower an open and safe workforce that works for the benefit of customers both today and in the future. This will help us continuously improve our customer service as well as our operational and environmental performance	All colleagues are invited to a monthly CEO Teams call and given opportunity to put questions to the Executive; this is supported by continual communication to support colleagues' health, safety and wellbeing as well as a series of annual Colleague Roadshows whereby the Executive host over 20 'town hall events' across our operating area.
Customers, Communities and Society	A dependable and trustworthy company that works in the interests of its customers, community and environment	To earn the trust of our customers every day. To influence behaviour to e.g. reduce consumption, not add inappropriate items to wastewater and sewers. To impart understanding of our operating activities and plans to deliver against their, and our, objectives	We hosted two open 'Your Water, Your Say' meetings to help inform the development of our 2025-30 Business Plan. We meet quarterly with CCWater and our Independent Customer Challenge Group, which play a key role in protecting customers' interests. We Track customer perceptions including trust and satisfaction. against key indicators. We also offer customers online self-service options to report problems and they can also contact us 24/7 through an array of different channels.
Regulators and Government	Efficient high-performing company that efficiently and reliably provides essential services, and adds wider social and environmental value	To gain their input to and agreement for our Business Plans and support our wider 'Team Wales' policies where appropriate. To understand and influence policy direction	We regularly meet with our regulators at Director and management level to discuss operational and reputational issues, as well as legislative and performance requirements and associated matters, future plans and policy decisions/proposals. We also engage regularly with the Welsh Government and local government officials and elected representatives on water and environmental issues.
Industry and Business Groups	To collaborate on common goals that support the needs of their members and their organisations' objectives	To work together to help the Company achieve its objectives and add value to the communities within which we operate	We play a key role as an 'anchor company' in Wales and a member of advisory bodies such as the IoD and Business in the Community, to ensure we influence and provide strategic input on various policy agendas.
Suppliers and Contractors	To meet their clients' needs: to improve their own reputation and support their own corporate goals	To engage and collaborate with suppliers that support our ethos and share common ESG goals, thereby ensuring the deliverability of our plans.	Having agreed performance measures at the outset of our relationship with suppliers, we often meet them to monitor and review their performance including their health, safety and wellbeing. We host audits and inspections of suppliers ensuring that we can provide consistent and seamless services to customers.
Environmental groups	To protect and enhance the environment and tackle the challenges associated with climate change	To gain insight on the wider environmental agenda; to gain support and constructive challenge on our plans; to develop collaborative and innovative approaches/projects; to improve and defend the reputation of the Company's commitment to the environment	With our environmental performance under scrutiny, we often meet – both in private and as part of public meetings – with environmental groups to discuss investment plans to help address issues and concerns. This is supported by our Independent Environmental Advisory Panel (representing frontline organisations in Wales) which meets 6 times a year to help ensure that we maximise the benefits of our investment programme for customers and the environment, and to secure a safe and sustainable future for the environment.

OUR APPROACH TO RISK MANAGEMENT

Enterprise Risk Management Process:

Our Enterprise Risk Management Framework provides the structure for the business to anticipate and report threats to meeting these customer commitments and to respond effectively when risks materialise. This framework includes:

- A Group-wide risk management process.
- A well-established governance structure providing Board oversight of risks, supported by oversight of the risk management process by the Audit Committee and a 'Three Lines of Defence' model that establishes ownership of risk management processes.
- A Board-led approach to risk appetite, based on our customer commitments and strategy.

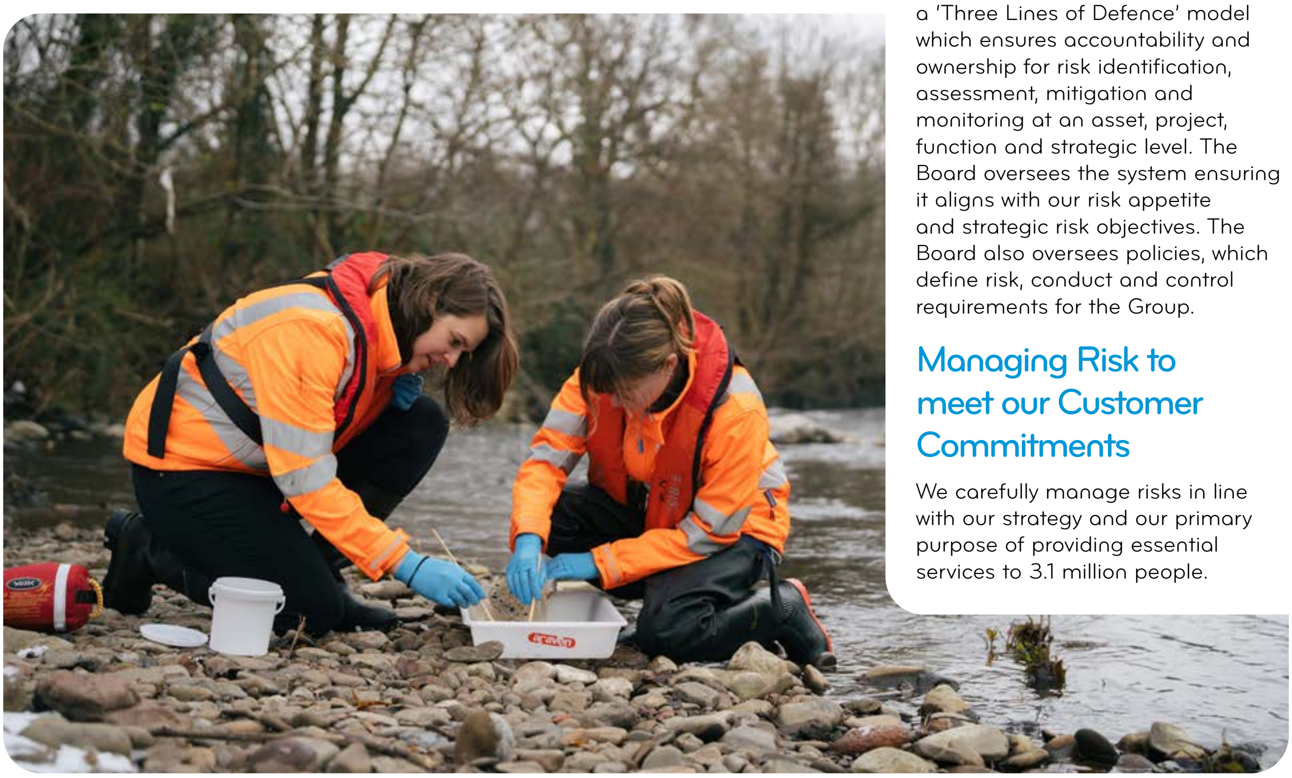
Our Enterprise Risk Management Framework

The ERM Framework establishes an ERM process which defines how risks are managed and reported across Welsh Water, illustrated below.

The Group operates the ERM using a 'Three Lines of Defence' model which ensures accountability and ownership for risk identification, assessment, mitigation and monitoring at an asset, project, function and strategic level. The Board oversees the system ensuring it aligns with our risk appetite and strategic risk objectives. The Board also oversees policies, which define risk, conduct and control requirements for the Group.

Managing Risk to meet our Customer Commitments

We carefully manage risks in line with our strategy and our primary purpose of providing essential services to 3.1 million people.



The Three Lines of Defence

Welsh Water operates the Three Lines of Defence model. Under this model:

First Line

Operational management has ownership, responsibility, and accountability for directly assessing, managing and mitigating risks.

Second Line

Specialist control functions and internal governance bodies monitor and support effective risk management by the first line. They also ensure the flow of risk information up and down the organisation, including risk escalation protocols.

Third Line

Independent assurance over the adequacy of design, effectiveness of operation and sustainability of the systems of internal control.

First Line	Second Line	Third Line
All employees	Risk Team	Internal Audit
Business area and asset managers	Dŵr Cymru Executive	
Project managers	Governance Groups and Committees	

The Board and Audit Committee sit outside, and regularly receive reports and assurance from, the three lines of defence.

Risk Appetite

Our risk appetite is defined in the Group strategic risk objectives which are reviewed and approved by the Board. They align to our strategic themes (Delivery to Customers and Communities and Protecting the Environment (see page 09) and are used to support risk-aware decision making.

1.1 Overarching Risk Objective

The Group recognises that continuing to fulfil the Company's primary purpose, of providing essential services to 3.1 million people across its supply area and minimising its impact on the environment, depends on having sufficient funds to invest for the long-term. Achieving lower-cost financing requires the Group to protect its reputation and the integrity of its relationship with customers and other stakeholders. As part of this, its appetite is for a generally low level of risk related to performance and customer service, allowing for some innovative solutions to deliver the best longer-term value for customers and the wider community.

1.2 Strategic Risk Objectives

i. Provide high quality and better value drinking water and environmental services to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.

ii. Invest in our assets and people in the best interests of our customers. The Group will invest funds efficiently and effectively in the asset infrastructure to ensure the best value for current and future customers. It will also work to attract and retain appropriate skills and resources to ensure high levels of customer service.

iii. Stable/efficient access to funding and liquidity. The Group plans to meet both planned and unexpected cash outflow requirements that arise. Stress testing for unexpected events will take place prior to plan approval.

iv. Maintain stakeholder confidence. The Group has no appetite for material risks which would result in reputational damage or adverse health and safety conditions for any internal or external stakeholders.

Developments during the Year – Climate Change-Related Risks

We continue to integrate understanding of the impacts of climate change into our ERM processes, alongside the embedding of climate scenarios within strategic planning. Risks of failing to adapt to climate change or meet carbon targets are regularly reviewed by the Board. A more detailed suite of ESG and climate change-related risks receive further focus at the ESG Committee of the Board (see page 129).

OUR APPROACH TO RISK MANAGEMENT
CONTINUED

Roles in relation to Enterprise Risk Management framework

The Board
oversees governance, including the ERM framework, approves risk appetite, and reviews strategic and emerging risks supported by DCE's regular update and overview of risks.

The Audit Committee
on behalf of the Board, oversees the ERM framework and risk management processes, including receiving assurance from management on risk oversight processes and receiving audit reports from Internal Audit covering the effectiveness of the risk management framework and underlying systems on control.

The DCE
oversees enterprise risk management, discusses strategic and emerging risks, reviews business risk registers, oversees the ERM Framework, and recommends risk appetite to the Board.

The CEO
under authority delegated by the Board, proposes strategic risk assessments, including risk appetite, to the Board and the Audit Committee for consideration, modification, and approval. They ensure the effective operation of a system of risk management and risk governance at management level, to inform decision making on financial and operational planning and achieving objectives.

The CRO
manages the Group's risk management processes, including ERM framework and flow of risk information. They prepare reports for Board meetings, highlighting changes to strategic and emerging risks, and prepare quarterly reports on business risk registers for review by DCE.

Internal Audit
must satisfy itself that the system of risk management is effective and ensure risk mitigation actions have the capacity to reduce gross risk to the required risk appetite level.

Individual Teams
manage risks within their areas, record ERM risks, update Risk Register, define risk owner, and escalate through team leader.

Each risk has a **risk owner** responsible for assessment, management, and reporting. For ERM Risks, the risk owner is normally a Director or head of service. For Project Risks, the risk owner is normally the project manager. For Asset Risks, the risk owner is normally the head of service or asset owner.

Every colleague must identify risks in their area of operation and comply with controls to mitigate them. Risks that cannot be managed individually should be escalated. Each risk has a risk owner accountable for it.

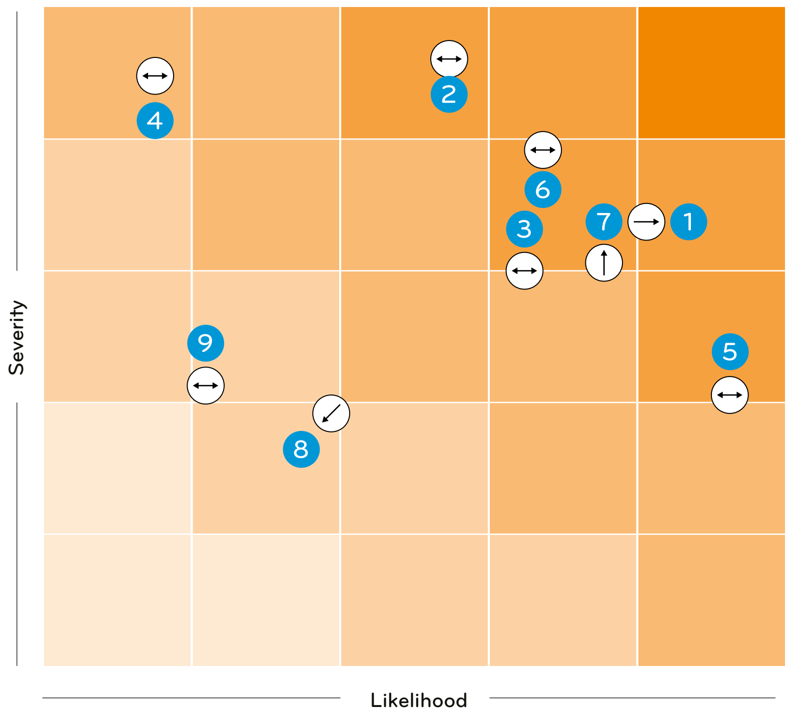
The ERM framework defines risk management roles establishing ownership of risk management processes, reporting and oversight.

Principal Risks Faced by the Group

We carefully assess these risks, considering their likelihood and the potential severity of their impact on our customers, reputation, and finances. As some of our principal risks are highly interrelated, our mitigation strategies, controls and actions are developed accordingly.

Our profile of residual risk, reflecting these mitigating actions, has increased in 2023. Notably, stakeholder focus on our environmental performance has increased, impacting trust risks, and we recognize that our performance must improve.

Summary of principal residual risks faced by the Group

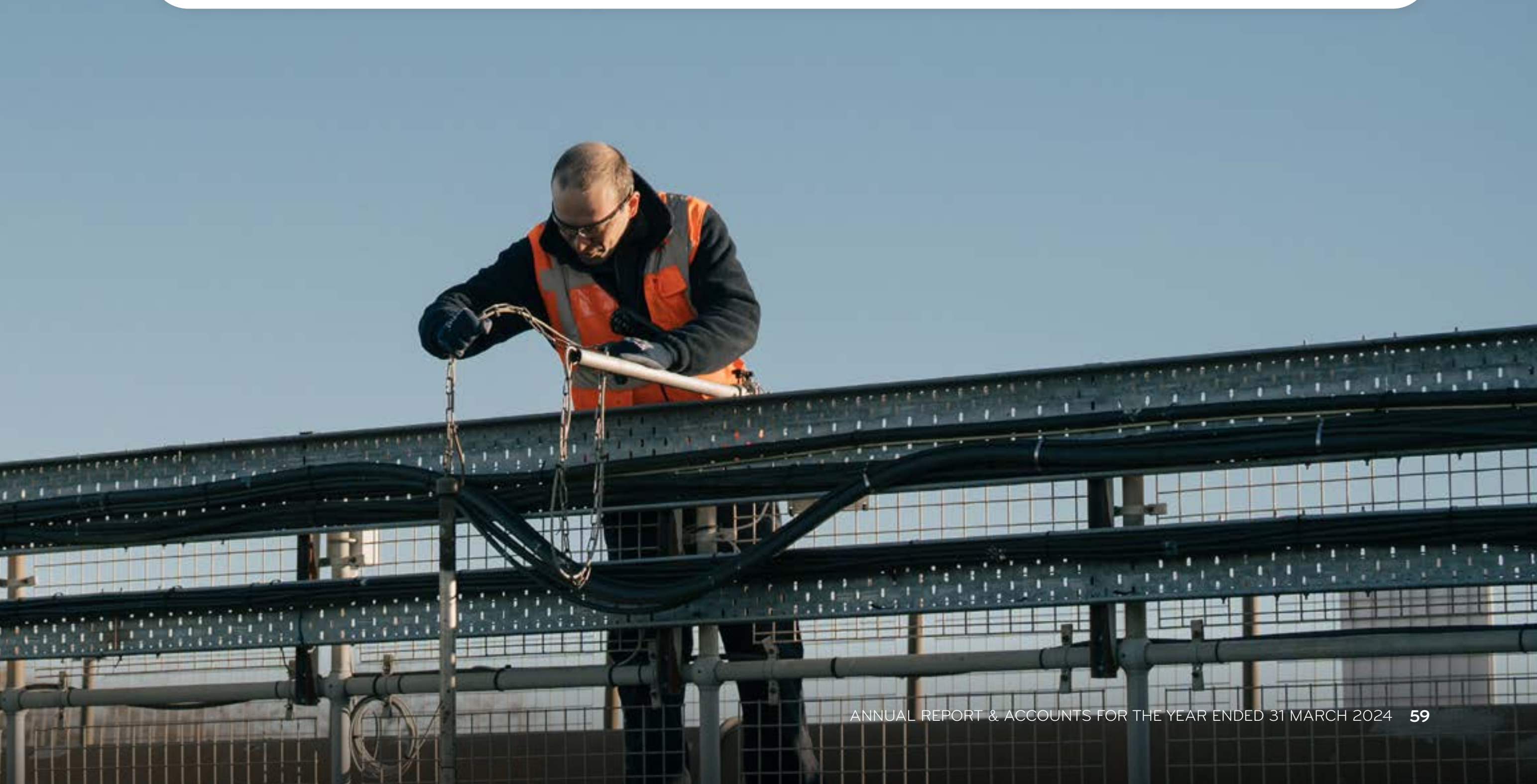


Risk

1. Environmental performance and reputation
2. Business continuity
3. Climate change impacts and transition risks
4. Health and safety major incident
5. Cyber, information and operational technology (IT and OT)
6. Operational performance and costs
7. Loss of trust, particularly by our customers
8. People talent and diversity
9. Finance risk and customers' ability to pay

Risk Trend – Indication of current exposure, relative to prior year:

- Decreased
- Stable
- Increased



OUR APPROACH TO RISK MANAGEMENT
CONTINUED

Principal risk	Potential impact	Mitigation
1 **Environmental performance and reputation**	There is a risk that we may not effectively manage our impact on the environment, meet environmental standards, and we may not adequately address the concerns of stakeholders regarding environmental issues. This could result in a loss of trust from our stakeholders and lead to significantly increased costs, potential damage to reputation/customer trust, and or significant fines/prosecutions.	Key operational activities are controlled using management systems certified to ISO 14001. We continue to work in partnership with community groups, the IEAP, government and regulators to understand environmental concerns and agree priorities for current and future investment. On river water quality, and SOs specifically, we work with the Welsh Government River Water Taskforce, Nutrient Management Boards and other similar groups to develop our plans. A key example is Our Manifesto for rivers in Wales (see online at https://dwrcymru.com/rivermanifesto)
2 **Business continuity**	The failure of strategic assets, workforce, corporate systems, supply chain provision or external events leading to the inability to deliver essential service provision of clean and safe drinking water, wastewater services, environmental protection or cash collection.	Our business continuity plans are regularly tested, and we conduct exercises to prepare for key disruption risks. Our Incident Response Manual and Incident Command Structure enable us to effectively respond to events that may disrupt our services. Additionally, we have the support of the wider industry through the Water UK Platinum Incident Management, which facilitates mutual aid across businesses.
3 **Climate change impacts and transition risks**	The risk of failing to mitigate/adapt to accelerated climate change, leading to our infrastructure being overwhelmed by weather events in a part of our operating area; or significantly damaging multiple assets, impacting materially on the environment, service provision, customers and our reputation.	Our business planning processes consider climate change scenarios to ensure we invest appropriately to build resilience. Governance has been enhanced with the formation of a DCE Climate Change Committee to oversee adaptation progress. We are committed to climate change mitigation: during 2021 we launched our 'Journey to Net Zero' strategy to achieve net zero carbon by 2040 (for further information please see page 78).
4 **Health and safety major incident**	There is a risk of an employee, contractor, visitor or member of the public suffering a serious injury, ill health or fatality arising out of, or in connection with, our work activities. Although we do everything in our power to avoid personal injury of any sort, their occurrence raises the risk of prosecution, potential for fines and criminal prosecutions against individual Directors, and loss of reputation. This could occur as a result of failure to establish and/or implement safe assets, safe working practices or suitable contractor management arrangements in line with legal requirements and best practice.	The Chief Executive Officer is the Board director responsible, and the Board reviews monthly updates and quarterly reports on health, safety and wellbeing issues and performance. The Health and Safety Executive (HSE)/Institute of Directors' (IOD) 'Leading H&S' guidance is used as a 'directing' framework. We use leading and lagging indicators to closely manage risk and performance. There are also frequent and regular communications across the business. Our operational procedures and policies are aligned with ISO 45001.

KEY
Decreased | Stable | Increased

Changes over the period	Risk trend FY 24
Our customers' interest in the environment has continued to increase, reflecting concerns about the global environmental emergency, alongside more local issues such as river water quality. We do not shy away from the fact our operations can impact the environment and we have not met all our performance targets. Our focus is to be transparent, to use data to drive improvements and target our investments for the greatest benefit. In particular, we are focussed on recovering the EPA 4 star rating through continued management focus, and via immediate and AMP 8 investments in drainage infrastructure and treatment processes. We have released our Storm Overflow Map, which provides near real-time information on our storm overflow activity near to waters in which our customers swim, supporting our action from the Better River Quality Taskforce, to provide more information to our customers. In addition to our existing plan to spend over £800 million in wastewater assets in AMP7, we have committed in 2022 an additional £140 million investment in river water quality and SOs.	↑ This risk has continued to increase since the FY 23 report
During 2023, our operational teams experienced significant pressure, including from an unprecedented number of named storms that overloaded some drainage networks. Our operational and business continuity teams managed these events well, averting widespread service interruptions. In addition, we have continued to focus on reducing interruptions to supply, both through developing our procedures and increasing asset resilience. Notably, we are introducing new Water Network response procedures, referred to as Project Novello, and have key resilience investment included in our proposed AMP 8 investments. We have maintained a focus on the development and testing of contingency plans including national fuel and power outages and a pandemic. We recognise that international conflicts (Ukraine, Israel) may continue to generate risks to fuel and chemical supply chains and have put a focus on these in planning and testing activities.	↔
We are seeing increased frequency and intensity of extreme weather events and we have developed our climate change adaptation and asset resilience planning. We have reviewed our adaptation risks through to 2100, reflected accordingly in our TCFD disclosure (see page 30) and in our Climate Adaptation Report published in 2023. We have developed adaptive plans to 2050 as part of AMP8 planning in accordance with guidance from Ofwat, to ensure our plans are adaptable, given the uncertainty in the scale and timing of climate change impacts.	↔
We keep health, safety and wellbeing issues under close review, with a weekly update to the DCE's Crisis Management team. In July 2024 we expect to retain our RoSPA Gold Award (7th consecutive year) for Health and the Welsh Government Platinum Corporate Health Standard. For 2024-25 we will be reviewing and updating our H&S Strategy and improvement plans to align with the business needs for AMP8.	↔

OUR APPROACH TO RISK MANAGEMENT
CONTINUED

Principal risk	Potential impact	Mitigation
5 **Cyber, information and operational technology (IT and OT)**	A major loss or disruption to an IT or OT 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.	We have an ongoing Cyber Security Programme to deliver security improvements in both our IT and OT environments. Over the past 12 months, we have made significant enhancements to many aspects of our security posture, using the CIS 18 controls as a benchmark. Notable improvements during this period include: • Two cyber culture platforms improving the human element of security. • A secure access platform for OT ensuring all access to OT environments from corporate IT is managed and monitored. • Onboarding of a Hybrid SOC partner, Bridewell, to improve 24x7x365 monitoring of IT and OT environments. • Over 300 key suppliers have been onboarded to Risk Ledger, our third-party security management platform. • Implementation of a cyber threat intelligence (CTI) platform, giving us real-time, actionable threat information. Our cyber team, comprising Security Architecture, Security Consultancy, Cyber Culture and Security Operations, supports the wider organisation in implementing controls to prevent, detect and respond to threats, running cyber exercises from tactical to executive level. We participate in industry and government forums and have been embedded in wider exercises such as NATO's Defence Cyber Marvel and DEFRA's Exercise Aqua Fortress.
6 **Operational performance and costs**	Performance below agreed AMP7 efficiency targets risks restricting delivery of customer outcomes, attracting material ODI financial penalties and eroding customer trust and regulator confidence in the Company.	The Board approves operational strategies and improvement plans to meet AMP7 performance commitments. Cost performance reporting and discussion is undertaken monthly by the DCE. The Board also reviews performance against the cost plan at each meeting. Financial plans are reviewed and approved by the Board annually. The DCE tracks change projects throughout the Company to improve performance and meet cost efficiency targets. These are reported to DCE meetings each month. We continue to work with our Data Science team to use innovation such as smart technology to deliver our services more efficiently and to measure our performance.

KEY

Decreased   Stable   Increased

Changes over the period	Risk trend FY 24
Programmable logic controllers (PLCs) impacted water companies globally, but did not impact Welsh Water. We continue to see elevated levels of phishing emails both in volume and sophistication and we are currently implementing Abnormal Security which offers an additional, more effective filter against these attacks. We expect to operate at heightened alert levels for the foreseeable future.	Stable
While we have achieved good performance this year on some important measures, such as C-MeX, Ofwat's key customer service measure, we recognise our performance in some other areas has been disappointing, falling behind our targets on water supply interruptions, water compliance the EPA rating, waste treatment works compliance and leakage. We have a recovery plan in place (for more, please see pages 20 to 23 for our Performance Summary and page 91 for our recovery plan	Stable

OUR APPROACH TO RISK MANAGEMENT
CONTINUED

Principal risk	Potential impact	Mitigation
7 **Loss of trust, particularly by our customers**	Failing to earn the trust and confidence of our customers risks a loss in customer confidence in our services. As a monopoly supplier of essential public services, we are subject to a high level of scrutiny by, and direction from, government and regulators.	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 and seek to optimise the effectiveness of our communications activities.
8 **People, talent and diversity**	The risk that we will fail to attract or retain talent to support all areas of our business. and/or We fail to improve the diversity of our workforce in order to better represent the communities that we serve, resulting in poor business performance.	A 5-year Human Resources (HR) Strategy (launched in 2021) aims for us to be acknowledged as the best employer in Wales. Central to that is supporting colleague development and ensuring our recruitment supports a diverse and inclusion workforce. We report on our Gender Pay Gap to the Board's Remuneration Committee (see page 150). For information about our work to improve diversity and inclusion in our workforce please see page 88.
9 **Finance (funding) risk**	The risk of the cost of raising new debt becoming more expensive than the current price control allows or becoming more difficult to obtain. This could be caused by the wider economic environment or a decrease in the credit rating of Glas. Banks may also be unable to offer additional finance for a few months in the event of financial markets disruption leading to an impact on cashflows.	We continue to monitor closely the environment, particularly in light of wider economic uncertainty and the impacts of the wars/conflicts in Ukraine and Middle East. We closely monitor and forecast debt ratios and funding requirements. We manage energy input prices through self-generation, financial derivatives and long term PPAs.

KEY
↓ Decreased ↔ Stable ↑ Increased

Changes over the period	Risk trend FY 24
Edelman's annual Global Trust Barometer suggest that customers' trust has declined significantly over the past decade. This is supported by customer research specifically on the water sector undertaken by CCW (in their annual Water Matters report) which shows sector-wide decline in the trust measure over the bast few years. Additionally, our own monthly trust tracker indicates that trust is at a lower level overall than it was last year. In light of increasing cost of living and environmental pressures, we recognise that we need to continue to work hard to maintain customer confidence in our ability to balance affordability with the need for investment to reduce our environmental impact and maintain services for the future.	↑
Our not-for-shareholder status, being a real living wage employer, and our hybrid model for office-based colleagues remain attractive to external applicants. This year we have seen an 8% improvement in under- represented groups applying for roles. Colleague turnover was at 9% throughout 2023.	↓ Reduced to reflect continued high retention rate and progress with long term development and diversity plan
Welsh Water and other water companies with good credit ratings have not experienced much change in their financing costs due to funding challenges in the broader water sector. However, there is the possibility of a long-term effect if any of the sector-wide risks materialise. Economy and current inflation forecasts have been factored into the Company's 2024-25 business plan, which demonstrates high levels of cash liquidity. We have maintained a significant cash balance and have increased short-term liquidity through increasing our revolving credit facilities. We closely monitor our credit ratios and funding requirements, and our business plans target the maintenance of a strong credit rating. We prepare to raise new debt well in advance of when it is required so that we can take advantage of periods when market liquidity is strong. We recognise that there is some uncertainty on our future investment needs (AMP 8 and beyond), particularly to meet environmental objectives and service resilience, as expectations for environmental performance may change and factors such our understanding of climate change and asset resilience develops.	↔

OUR APPROACH TO RISK MANAGEMENT
CONTINUED

Emerging Risks Faced by the Group

Emerging risks are discussed in depth by the Board twice each year.

KEY
Decreased · Stable · Increased

Emerging risk	Potential impact	Mitigation	Changes over the period	Risk trend
1 Substances of Emerging Concern (Wastewater & Drinking Water)	Emerging contaminants creating scientific, social and political interest leading to possible onward impacts on (water and wastewater) treatment processes that may affect our carbon targets and/or create public health concerns (Current examples are micropollutants such as microplastics, man made chemicals such as PFAS and pharmaceuticals)	We are following developments in environmental and drinking water regulation and supporting research by the UK Water Industry Research body (UKWIR) and others into the potential (treatment and public health) risks.	Increased media interest and a growing research focus on 'forever chemicals' and a requirement from our regulator, the Drinking Water Inspectorate (DWI), to analyse all drinking water sources for the presence of PFAS (perfluoroalkyl and polyfluoroalkyl substances) and have risk assessments in place to mitigate risk. To date, our monitoring programme has not identified significant levels of PFAS in our water sources, which we use to provide drinking water. European Chemicals Agency (ECHA) have approached the EU Commission to impose a ban on non essential PFAS which is receiving significant support. PFAS (monitoring and standards) is included in the Drinking Water Directive (DWD) recast. (England, Wales & N Ireland have not adopted the DWD, Scotland have) Current drafting of the new Urban Waste Water Directive includes PFAS (monitoring and standards) United States Environmental Protection Agency (US EPA) enforced (first ever) national drinking water standard for PFAS (first time in 26 years that EPA has set a legal limit for a contaminant in drinking water)	Stable
2 Legislative divergence	This is a risk of increased costs from compliance with water and environmental obligations that may diverge between England and Wales and/or increased costs arising from diverging interpretations by the environmental regulator.	We recognise some areas of potential divergence, particularly covering waste treatment and SO spill requirements. Our approach in these areas is to work with our stakeholders to develop solutions that best serve our customers' interests. We are actively supporting many interest groups. Our focus remains on developing transparency through the introduction of river water quality monitoring and on the monitoring and reporting of flow compliance.	Collaborating with Water UK and the Welsh Government to understand the complexities around evolving interpretation of the Urban Waste Water Treatment Regulations. Engaging with Natural Resources Wales (NRW) on various permitting and regulatory policy developments affecting all wastewater assets and working through key aspects of guidance clarity with them – through this we are influencing alignment of key guidance such as "spill on a dry day" between agencies Working with the Better River Water Quality Task Force in Wales to agree the pace and nature of required improvements based on environmental need	Stable

LONG-TERM VIABILITY STATEMENT

The Directors have undertaken a robust assessment of the long-term viability of the Group, taking account of the Group's current position, the potential impact of the principal risks facing the business in severe but plausible scenarios, and the effectiveness of any mitigating actions. This assessment considers the Group's longer-term prospects to ensure that the business is able to withstand various severe but plausible scenarios and to continue its operations, access to financing arrangements and delivering critical customer services should such scenarios arise. Based on this viability assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the 6-year period to March 2030. The rationale for selecting this period is explained below.

As custodians of a long-term business, enduring viability is embedded in our risk management and planning processes. The Board undertakes a detailed assessment of the Group's risk management processes, which are detailed on pages 56 to 66, with due consideration given to the management of risks that could over the long-term impact on the business model, future performance, credit ratings, solvency and liquidity of the Group. Specifically, risks associated with the current levels of economic uncertainty, environmental performance and climate change are reviewed. The Board challenges the identification and assessment of risks twice each year, and the assumptions and the estimated impact of mitigating activities used in financial forecasting on an annual basis. Additionally, we have an established process to assess the Group's prospects which is performed annually by the DCE. The results of this assessment are considered by the Audit Committee, which reviews and recommends the Long-Term Viability Statement to the Board, where it is reviewed by the Directors for approval. 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 5-10-year horizon.

We are a regulated monopoly of an essential public service with a rolling 25-year licence characterised by multi-year investment programmes and stable, predictable revenues. The water industry in England and Wales is regulated by Ofwat who has a statutory duty to ensure that efficient companies can finance their functions. Ofwat meets this duty by setting price controls for five-year Asset Management Periods ('AMPs'). The current AMP period (AMP7) runs to 31 March 2025 and the Price Review for the next AMP (AMP8) is well underway and expected to conclude in December 2024 when Ofwat publishes its Final Determination (FD24). FD24 will specify the allowed revenues and regulatory capital value of the Group's water business for AMP8 reflecting Ofwat's assessment of the business' required return on capital and expenditure needed to deliver services and to meet its legal obligations. Ofwat will also set service performance commitments (PCs) and financial rewards and penalties for exceeding or missing those PC targets under its Outcome Delivery Incentive (ODI) mechanism. The Group's financial position beyond 2025 will depend on the outcome of FD24. Should the Directors believe that FD24 adversely impacts on the Group's finances it could ask Ofwat to refer FD24 to the Competition and Markets Authority (CMA) for redetermination. The basis of our assessment for the next year is based on the final determination for AMP7, with the Group's prospects beyond 2025 based our present view of our AMP8 final determination, which considers the potential impacts of the principal risks and uncertainties facing the Group. A draft determination is expected to be issued by Ofwat on 11 July 2024.

The Directors' assessment of the Group's financial position at 31 March 2024, investment programmes, funding strategy and debt maturity profile is set out in the Chief Financial Officer's Review on pages 24 to 29.

Important aspects relevant to the assessment of the Group's long-term viability are:

- Gearing maintained in line with the Group's target of around 60%,
- Sufficient cash and cash facilities to fund financial commitments over the next year are available to the Group,
- Credit ratings from Moody's, S&P) are comfortably above investment grade levels,
- Defined benefit pension scheme remains fully funded, with contributions remaining unchanged.

It is necessary to make certain assumptions and sensitivities when considering the Group's prospects in the medium term. These are as follows:

- The Group is able to continue to access debt finance and capital markets, enabling the Group to successfully restructure its debt as it comes due in AMP8 and continue to roll over our revolving credit facilities where necessary;
- The current regulatory and statutory framework does not substantively change in the period covered by this assessment and the PR24 price review will provide a sufficient rate of return to enable the Group to finance its functions for the period 2025-30;
- Historical evidence and the evaluation of similar events observed in the market have been used to inform the potential impact of modelled scenarios; and
- The severe but plausible scenario is based upon the Board's view of each principal risk's post-mitigation likelihood and severity.

LONG-TERM VIABILITY STATEMENT
CONTINUED

The Directors have chosen a period of 6 years to assess our ongoing financial viability. Medium-term planning considers both the current and next price control period, to facilitate smooth transitions between price controls. The Board considers a number of factors in determining the period covered by the assessment with a period of 6 years having been selected mainly as covers the remainder of the current AMP period to 2025, and the next AMP period to 2030 without too many forward assumptions having to be incorporated. A longer period of assessment introduces greater uncertainty as the variability of potential outcomes increases, with any further periods being extrapolated from our AMP8 forecast providing limited to no additional benefit for further testing the viability of the Group.

Stress Scenarios

Our viability assessment is based on exposing our baseline forecasts to 2031 to several negative "stress" scenarios, which include the Board's view of the likelihood and severity of each of our principal risks and uncertainties occurring, both individually and in aggregate. The key risks faced by the Group and mitigation measures can be found in the key risks summary. Additionally, we have adjusted our core inflation assumptions to run scenarios in both high and low inflationary and base rate environments and evaluated their outcomes.

We have identified what we consider to be the 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.

We believe 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.

As part of the assessment, reverse stress testing of an extreme theoretical scenario focusing on totex overspend has been performed to understand the extent to which the Group could further absorb financial stress, pre-mitigation options, before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but reasonable' scenarios before the Group's long-term viability would be at risk.

Principal risk scenarios	Stress test applied	Principal risk	Available financial mitigation options
1. Failures to achieve performance commitments and non-compliance with regulations Stretching efficiency challenges received from Ofwat on our PR24 draft determination, penalties arising from failing to achieve our price review performance commitments set by Ofwat, National Resource Wales and Drinking Water Inspectorate, including key business risks, limited progress towards WW2050, asset resilience and net zero carbon, resulting in fines from regulatory/legal bodies.	7% lower revenue allowance than base assumption, impacting RCV over the forecasted period, offset by marginally lower Capital expenditure.	6 7	1, 2, 3
2. Cost-of-living crisis and economic downturn Prolonged recession with low GDP growth leading to low inflation, cost pressures going into the next AMP period and pressures on cash collection rates from customers impacting on our bad debt charge.	A decrease in inflation of c.1.5% and interest rates of c.0.5% and an average increase in totex of 4% per annum.	2 9	1, 3, 3
3. Severe climate events and operational failures Extreme weather events, such as prolonged heatwave, cold and wet weather resulting in unplanned costs and the failure of key assets impacting operations and delivery of service.	An average increase in totex of 6% per annum over the forecasted period.	1 3	3
4. Water quality and environmental failures Experiencing a prolonged incident of water contamination resulting in significant supply interruptions and penalties. Sustained Storm Overflow operation resulting in additional political, regulatory and reputational pressures. Potential publicity affecting other water companies impacting scrutiny of our operations.	An average increase in totex of 6% per annum over the forecasted period.	1 4	2, 3

KEY

1. Environmental performance and reputation
2. Business continuity
3. Climate change impacts and transition risks
4. Health and safety major incident
5. Cyber, information and operational technology (IT and OT)
6. Performance and costs
7. Loss of trust, particularly by our customers
8. People talent and diversity
9. Finance risk and customers' ability to pay

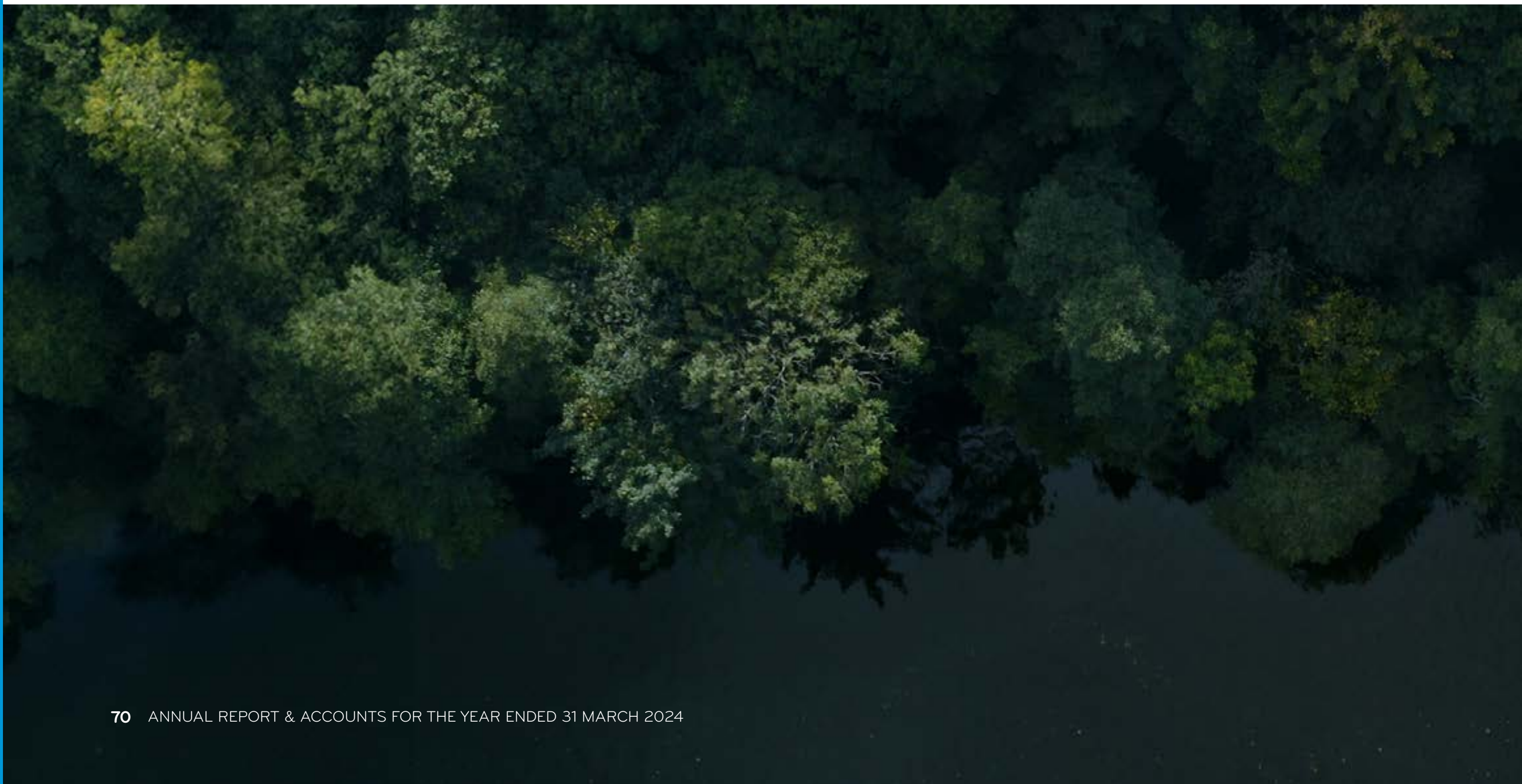
Principal risk scenarios	Stress test applied	Principal risk	Available financial mitigation options
5. Cyber security A severe breach of technology and systems impacting delivery of services, fraud or data loss. The possibility of fraud is considered unlikely on a large scale based on the current strength of our IT services.	An average increase in totex of 1.4% per annum over the forecasted period representing fines and rectification costs.	5	2, 3
6. Increase in the cost of new debt issuance Impact of a credit rating downgrade arising from poor operational and/or financial performance increasing cost of new debt issuance.	An increase in margins on the cost of debt of c.1.5% in the short-term, deflating to c.0.5% above our cost plan in the medium-term.	2, 9	3
7. Health and safety major incident A fatality occurring because of corporate negligence.	A one-off major health and safety incident in 1 year of the forecasted period triggering highest market H&S fine to date.	4	–
8. Severely adverse but plausible A severely adverse but plausible scenario reflects significant cost shocks which occur in a low-inflation environment. Cost shocks are based on a formulaic probability multiplier, combining all scenarios using their likelihood to weight their financial impact.	Formulaic multiplier of all scenarios based on principal risk likelihood		1, 2, 3
9. Reverse stress test We conducted a reverse stress test on our financial plan to identify the deterioration required in our financial performance that would result in a sub-investment grade credit rating, leading to a breach in our covenant and loss of licence.	Total financial impact resulting in a sub-investment grade credit rating, leading to a breach in our covenant and loss of licence.		1, 2, 3

LONG-TERM VIABILITY STATEMENT
CONTINUED

Mitigating Actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the Group, the effectiveness of which are underpinned by the strength of the Group's liquidity position. As well as the protections that exist from the regulatory environment within which the Group operates, a number of actions are available to mitigate more severe scenarios. When selecting mitigation actions in response to our principal risk scenarios, we would consider the balance of all stakeholder interests and would prioritise mitigating actions that would not lead to a breach of our commitments to customers.

Mitigating actions considered normal business considerations	Considerations	Incorporated in our financial plan
1 Cost reduction in discretionary spend programme	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to key stakeholders, specifically customer service.	Partially
2 Engage with ratings agencies and banks	Where a rating threshold or a covenant threshold is breached, a downgrade might not always be applied, with judgement also considered by rating agencies. We engage, as the PR24 process progresses, with rating agencies and our banks on a regular basis and will continue to liaise on macroeconomic pressures and present our financial plan.	Not applicable
3 Reprofile capital programme	We would seek to reprofile our capital programme, in a worst case scenario, to smooth the impact of risk scenarios on our cash flows and the effect on key performance ratios over a number of years. We recognise the importance of our capital programme in improving our assets to deliver customer needs, such as reduced leakage, with any mitigation carefully considering the impact on our stakeholders, the environment and our performance.	No



Outlook

The level of stretch in the severely adverse but plausible scenario assumes revenue reductions of c.4.6%, representing c.£380m, operational expenditure increases of c.3.9%, representing £115m, both deteriorating our credit rating and covenant metrics, with a reduction in capital expenditure of 8.0%, representing £460m to offset an anticipated reduction in revenue allowances from our PR24 draft determination impacting our RCV and consequently increasing gearing levels. The severely adverse but plausible scenario does not represent all the available mitigation options at the Group's disposal, with further totex reductions and financing options available to reduce gearing and return financial performance ratios in line with credit rating metrics, should these be required.

The Group anticipates the severely adverse but plausible scenario could potentially result in a single notch credit downgrade from the current A3/A-/A, to Baa1/BBB+/BBB+, with the Water industry presently on negative watch, but provides sufficient headroom against a downgrade which would result in a rating below investment grade (Baa3/BBB-/BBB-). The level of stretch implied in a pessimistic double downgrade scenario is available in our reverse stress test below.

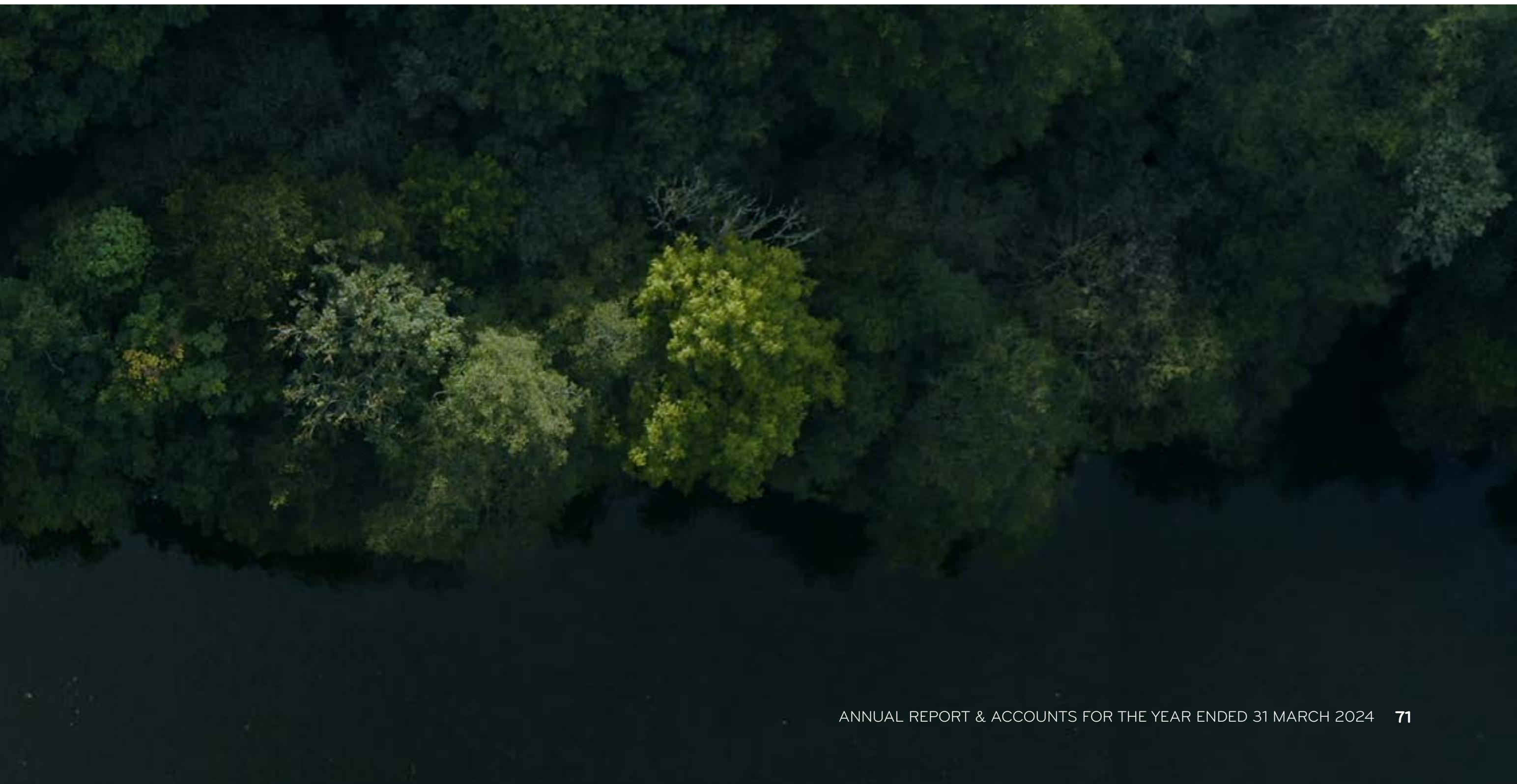
In addition, we have modelled both a high and low inflationary environment, with a high inflation environment representing an escalation of the conflict in the middle east impacting the macro economic similar to the Ukraine Russia conflict, spiking inflation and interest rates temporarily to 9.0% and 6.0% respectively for the end of 2025/26, reducing gradually to 4.5% and c.5.0% by 2027-28 for the remainder of the period. This would place short-term pressures on the Group, but in the long-term with our revenue allowance linked to inflation a high inflation environment would benefit the Group. A low inflation environment would reduce inflation and interest rates by 1.5% and c.0.5% respectively over the forecasted period, presenting medium to long-term pressures on the Group. In both scenarios, the Group would have sufficient headroom against the reverse stress test scenario.

We conducted a reverse stress test on our financial plan to identify the deterioration required in our financial performance that would result in a sub investment grade credit rating, leading to a breach in our covenant and loss of licence. We identified, pre-mitigation, operating profit would need to decrease by 14.1%, with capex increasing by c.2.4% over the forecasted period from our core plan to result in a sub investment grade credit rating, which is an additional 67.4% on our severely adverse but plausible scenario.

Conclusion

By conducting stress testing, the Board has considered the impact on the covenants attached to our existing funding position (interest cover and gearing), as well as on the principal financial metrics used by credit rating agencies in assessing our credit ratings and liquidity. In the event that the Group finds it necessary and is able to successfully restructure its debt to an affordable level, the Group is not exposed in the near or long term to downside volatility if the Group's strategic, operational, liquidity or compliance risks arise in isolation or in combination, as tested in the severe but plausible scenario.

The Board considers that the risk management and forecasting controls in place are robust and that the 2024 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.



WHAT SUSTAINABILITY MEANS TO WELSH WATER

As a business using long-term infrastructure, sustainable development of our assets and operations is a key part of our activity. Sustainability therefore guides guides our own policies and strategies and those of Government and Regulators alike, provides investors with the information they require, and helps to secure the trust of our customers.

The Welsh Government, in the Well-being of Future Generations (Wales) Act 2015 (The Act), defined sustainable development as any act undertaken to improve the economic, social, environmental and cultural wellbeing of Wales, and so achieve the wellbeing goals listed in The Act (The Well-being of Future Generations | GOV.WALES)

The Act requires public bodies in Wales such as NRW to work together with others and take a more joined-up, long-term approach so that their decisions have a positive impact on future generations as well as those living today. These aspects of The Act are clearly aligned to our Vision and much of our strategic intent as set out in Welsh Water 2050 and our Environmental, Social and Governance (ESG) objectives | Dŵr Cymru Welsh Water (dwrcymru.com)). We are not a public body as defined in The Act, so we have no duty to comply. Nevertheless some of our partners are public bodies bound by the Act, and we follow its principles.

Sustainable Development

We have adopted The Act's definition of sustainability – to act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Thus we can ensure that our ESG goals are also aligned to the UN Sustainable Development Goals (SDGs) (and the 10 principles of the UN Global Compact (THE 17 GOALS | Sustainable Development (un.org) and the 10 principles set out within the UN Global Compact (Homepage | UN Global Compact).

Consistent with our alignment with The Act, and in particular The Act's definition of sustainability, wherever possible we focus locally, we make efficient use of Wales' resources, and we specifically take account of the five 'ways of working' listed in The Act (VWG-5-ways-of-working-factsheet.pdf (wcva.cymru)).

By following the principles of The Act we will balance our shorter-term considerations with the long-term needs of customers and society. This is especially the case where meeting short-term requirements may have a detrimental long-term effect, but also, where our objectives impact upon each other or upon other related objectives e.g. where by improving river water quality we increase our carbon footprint and costs of our services to society.

Like public bodies, who are bound by The Act (though we are not), we take a 'Team Wales' approach. This means we share our skills, knowledge and resources with other Welsh bodies, stakeholders and regulators – mandated to work under The Act and with a common interest in achieving Wales' wellbeing goals – in our strategic discussions, for the common good. We also act in collaboration with other parties, which helps us to meet our objectives efficiently, and helps other Welsh bodies to meet theirs.

Sustainability & ESG Objectives

Our approach to sustainability

To be sustainable we must fulfil the needs of current generations without compromising those of future generations. This approach is integral to everything we do and is fundamentally underpinned by our not-for-shareholder business model. This makes it easier for us to focus on the long-term interests of customers and communities, which is critical if we are to remain sustainable, given our very long-lived assets.

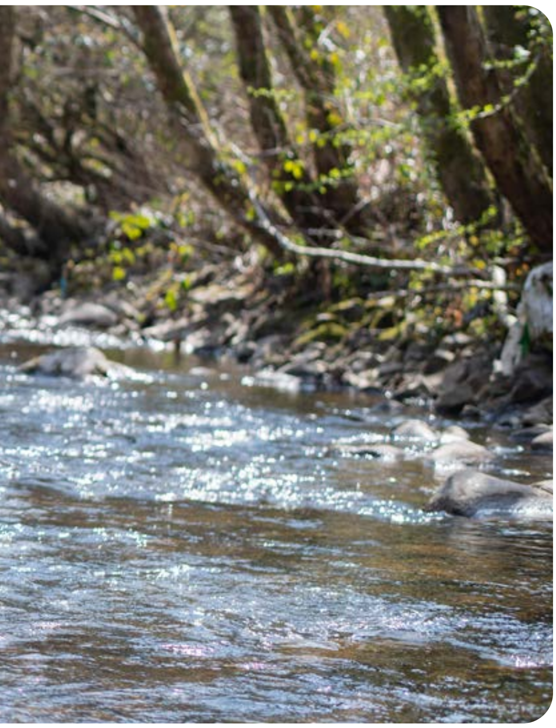
Welsh Water 2050 is aligned to the 7 Wellbeing Goals as outlined in The Act. In 2020 we launched our Wellbeing Commitments which were agreed with our Independent Challenge Group (ICG, formerly known as Customer Challenge Group). These commitments have been amalgamated into our Environment, Social and Governance (ESG) strategy and underlying key performance indicators (KPI). The ICG periodically reviews performance against these metrics and provides an annual report to the ESG Committee.

For more information about the impact of the water sector and the UN Strategic Development Goals (SDG), go to: https://www.unglobalcompact.org.uk/measuring-up/

Rather than discuss sustainability in isolation, this report sets out 2 strategic themes relating to our delivery of our drinking and wastewater services, and protecting the environment.

These map well onto the Wellbeing Goals: a globally responsible Wales, a resilient Wales; a healthier Wales; a prosperous Wales; a more equal Wales and a Wales of vibrant culture and thriving language.

Sustainability is central to our Welsh Water 2050 mission to offer truly world-class, resilient and sustainable water service for the benefit of current and future generations. The Vision more broadly addresses the significant challenges we face in both the short but particularly the longer term and forms the foundation for the strategic responses set out in Welsh Water 2050. See our 2050 documents online at Our plans | Dŵr Cymru Welsh Water (dwrcymru.com).



Sustainability and our Strategic Themes

Below we set out a summary of what sustainability means for each of our strategic themes.

Service Delivery to Customers and Communities

Sustainable drinking water and wastewater services are those which protect and enhance the environment, efficiently meet the needs of customers, and comply with the permits and licenses under which we operate. They also use innovation to constantly improve and refine the services so that they meet the ever increasing expectations of customers at a price they can afford, and to adapt to future challenges to ensure our services can be sustained for future generations. Creating social value for our customers, who play an essential role in supporting the sustainability of the services we provide, is also intrinsic to being a sustainable water company. Customers, in large part, ultimately determine the amount of water we need to take from the environment, and can impact on our sewers and the environment by the inappropriate flushing of plastics and other materials. Working with customers to change their behaviours is an essential component of maintaining our services on a sustainable footing – and so creating social value.

In addition to providing them with drinking water and wastewater services, we will also maximise the wellbeing potential of our landholdings and facilities, to help our customers enjoy the environment, partake in recreational activities, and understand better the key role they have in ensuring we are able to offer sustainable services to both current and future generations.

Protecting our Environment

Sustainable drinking water and wastewater services are those which protect the environment from the impact of treated and storm effluents being returned to our rivers and seas, from carbon emissions to the atmosphere, the unsustainable use of chemicals and other materials, support the recycling of biosolids, and so embrace the circular economy. They control pollution at source, and help prevent such pollutants as perfluoroalkyl and polyfluoroalkyl substances (PFAS) – also colloquially known as 'forever chemicals' – entering the sewerage system. These services reduce as far as possible the requirement for processed water, through limiting leakage and proactively encouraging and educating current and future customers to reduce their consumption.

SUSTAINABILITY & ESG OBJECTIVES

Governance of Sustainability

Sustainability runs through everything we do. Ensuring it is governed effectively is of key importance to the Company and the Board. To that end, our Environment, Social and Governance Committee completed its third year overseeing the strategy we developed to achieve our sustainability and environmental objectives (Environment | Dŵr Cymru Welsh Water (dwrcymru.com)).

Key challenges reviewed by the Committee in the year are outlined in the activities of the ESG committee for FY 24 on page 129. Of particular note, this year we introduced our sustainable procurement policy with our suppliers, and our new Estates Strategy.

Our ESG strategy, including the 10 ESG objectives reviewed and approved by the ESG Committee in February 2022, was further reviewed by our Independent Environmental Advisory Panel in 2023 to ensure that our focus was aligned to the key priorities as advised by the Panel.

Three of our 10 ESG objectives relate specifically to governance of sustainability and are explained on pages 89 to 90.

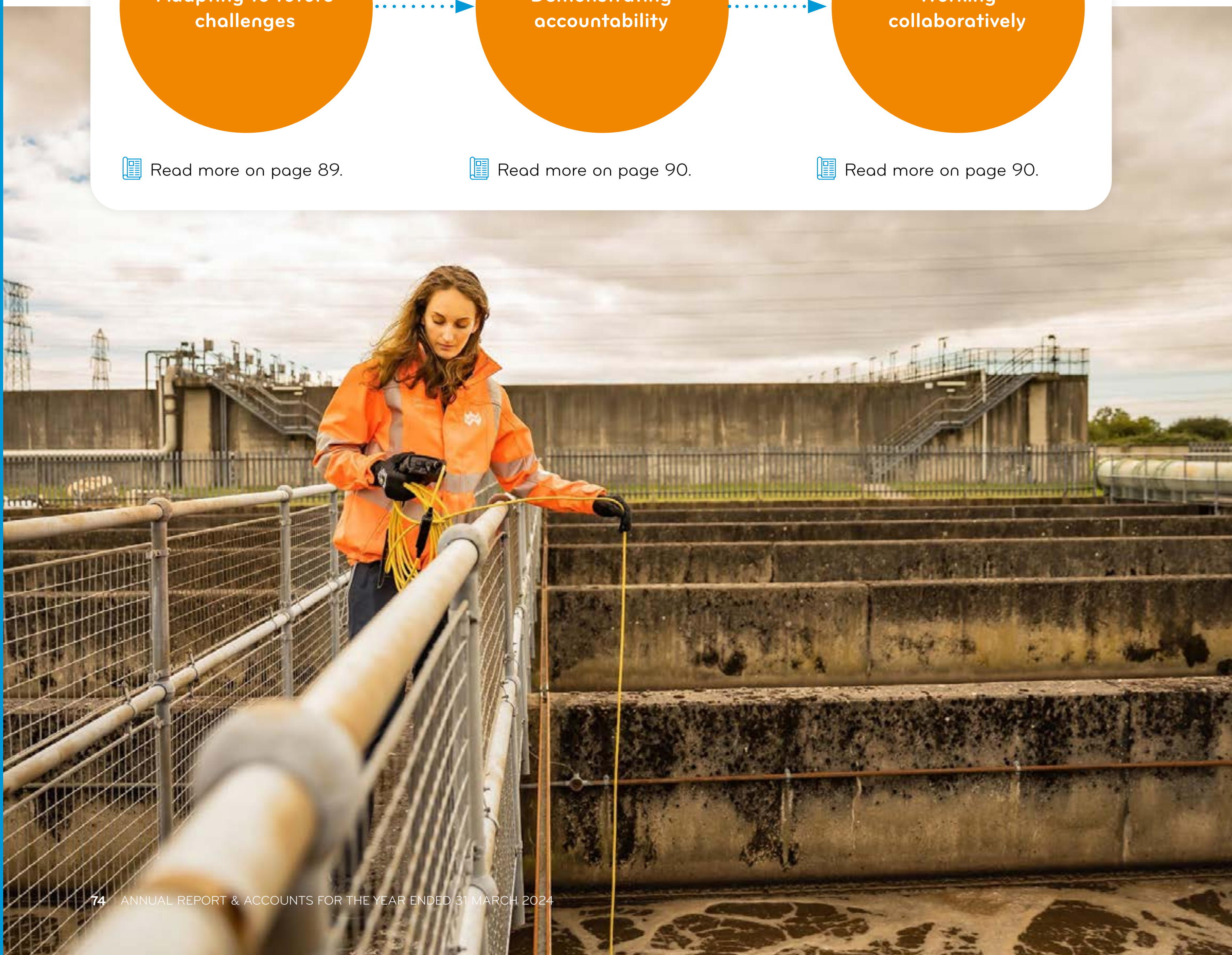
Supported and Enabled by Governance of Sustainability

Adapting to future challenges → **Demonstrating accountability** → **Working collaboratively**

Read more on page 89.

Read more on page 90.

Read more on page 90.



In addition to the content on the ESG objectives which relate specifically to the governance of sustainability, we set out below other polices and initiatives relevant to this matter.

Governance of Sustainability: Policies and Initiatives

Good governance is at the heart of our decision making and our transparent and accountable relationships with our stakeholders. Our approach to governance builds compliance with good governance and detailed risk management into our decision making at all levels of the business. The following table sets out a number of initiatives, accreditations and policies which demonstrate the breadth of our approach.

Accreditations for Fair Tax and Fair Payments Fair Tax Prompt Payment Code	**Fair Tax Mark** In July 2021, Welsh Water became the first company in Wales to secure Fair Tax Mark accreditation, reflecting the Company's responsible and transparent management of its taxes. As a consequence, the financial statements in this Annual Report include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the total taxation reported. **Prompt Payment Code** We signed up to the PPC in May 2019, committing to pay 95% of our suppliers within 60 days. From 1 July 2021 signatories were required to pay 95% of suppliers with fewer than 50 employees within 30 days. As at the end March 2024, we were making payments to 95% of all small businesses we are aware of within 30 days of receipt, and 98% of total invoices for all suppliers within 30 days of receipt, with plans in place for further improvement.
Anti-Bribery and Corruption Policy and Anti-Fraud	Our policies make it clear that we will not tolerate any acts of fraud, dishonesty, bribery, corruption, theft, or improper disclosure of confidential information. This is reinforced by our strict policy on hospitality and gifts from suppliers. No breaches of policy were notified to Internal Audit or the external whistleblowing hotline during FY 24.
Sustainable Procurement Policy, Supply Chain Compliance Standards and Anti-Slavery initiatives HOPE FOR JUSTICE	**Sustainable Procurement Policy** We have established our sustainable procurement aspirations through collaboration with key stakeholders, covering environmental, economic and social areas. Our aspirations have been mapped against Dŵr Cymru's ESG Strategy Objectives, the Well-being of Future Generations (Wales) Act and are included in our Sustainable Procurement Policy (SPP). We have assessed the impact of these sustainable procurement aspirations in the key categories we procure by undertaking risk and opportunity heatmapping of existing procurement contracts against the aspirations. We are now implementing our Sustainable Procurement Policy. **Supply Chain Compliance Standards** We launched the Supplier Code of Conduct (SCC) in April 2021. Since then we have: • included supplier acceptance and confirmation of compliance with the SCC as a pass/fail test at the Pre-Qualification Questionnaire stage of the tender processes: • Incorporated compliance with the SCC as standard wording in all goods and services contracts which have been awarded, changed or extended since April 2021; and • amended the purchase order terms and conditions to incorporate the requirements of the SCC. **Modern Slavery Awareness** We held an annual week-long campaign on modern slavery awareness. In October 2022, Procurement, in conjunction with the Hope for Justice Alliance, engaged with and trained operational colleagues and suppliers on how to identify the signs that modern slavery may be occurring and to confirm our reporting procedures in the event that modern slavery is suspected to be taking place. We also highlighted the Supplier Code of Conduct and the requirement to comply with this during the training sessions. Our Anti-slavery statement can be found at https://dwrcymru.com/antislavery. All members of the Procurement team have completed the Chartered Institute of Procurement and Supply's (CIPS) Ethical Procurement and Supply e-Learning and Test certification and Welsh Water successfully attained the CIPS Corporate Ethics Mark accreditation. This signals to Welsh Water's suppliers, customers, potential employees, and other stakeholders that they are dealing with an organisation that is committed to ensuring its staff are trained in ethical sourcing and supplier management, and that we have adopted ethical values in the way in which we source and manage suppliers.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Protecting the Environment

ESG Objective 1 – Long-term Planning

Our assets will be relied upon to provide our essential services, and minimise impact on the environment, for many generations to come. Our corporate structure means we are not driven by shareholder dividends – we plan for the long term and take into account the needs of future generations of our customers. We also work to ensure our procurement practices are sustainable and support local businesses and the circular economy more generally where possible.

During 2023 and culminating with the publication of the business plan for AMP8 and beyond, we have developed how we will deliver ever-better value for our customers. Our planning approach ensures that broader impacts and opportunities, beyond financial aspects, are considered in our decision making.

Welsh Water's Purpose is: 'To provide high-quality, better-value drinking water and environmental services, so as to enhance the wellbeing of our customers and the community we serve, both now and for future generations to come'. Our planning approach provides the opportunity to integrate public value systematically into the delivery of Welsh Water's functions for the benefit of all. In so doing it also directly supports our Purpose and help to move the Company to a more sustainable position over time.

Water as a Resource

Although a significant amount of rain falls across Wales, on average we use only around 3% of that rainfall for public water supply. This leaves 97% for agriculture and the environment, which is far more than in many areas of England.

Most of our water is supplied from our impounding reservoirs, although we also take water from lowland river intakes, such as those on the Rivers Wye and Usk in south-east Wales, the Rivers Tywi, Cleddau and Teifi in south-west Wales and the River Dee in north Wales. Ground water accounts for less than 5% of our supplies at a company level.

We hold 151 abstraction licences that govern how much water can be taken from our water sources. The licences are granted by Natural Resources Wales and the Environment Agency in England and restrict the amounts that can be abstracted. These licences have additional conditions, such as the volume of water that needs to be released from reservoirs for environmental compensation, and the need for screening to protect the ecology of our rivers.

The key environmental legislations governing our raw water sources are the Habitats and the Water Framework regulations. Implementation of the requirements of this legislation resulted in expenditure during AMP6 and AMP7 to manage the impact of reductions in permitted licence volumes at a number of our river abstractions.

We have an enhanced duty from the Environment (Wales) Act whereby Section 6 requires public authorities (including water companies) to 'seek to' maintain and enhance biodiversity rather than just 'have regard' to its conservation. To meet that objective, we need to be proactive in understanding the potential impacts of our operations in the medium to long term so we can prepare and mitigate accordingly.

It is important we ensure that we will always be able to provide a sufficient supply of water to meet our customers' reasonable need for water, and that this is managed in a sustainable way within environmental limits. It is equally important that we seek to reduce the demand for water by reducing leakage and promoting customer behaviours that reduce their water consumption. This will reduce both our need for abstraction and our use of energy in processing and distributing water.

To support the aims above, we develop long-term Water Resource Management Plans (WRMP) addressing the sustainability of supplies over the next 25 years, ensuring that our water supply systems are resilient to drought, limit damage to the environment, and account for latest demand forecasts under a changing climate and growing population.

We take a progressive approach to Water Resource Planning as successive WRMP timeframes overlap. Every 5-year plan is an update of the last, based upon new drivers, such as revised government or regulatory guidance, customer priorities, and improved evidence.

The WRMP formulates a set of options and solutions to ensure long-term drought resilience of our customers' supplies. It is achieved through reducing the demand for water, such as through increased leakage detection, or providing new sources of water. We are guided by government, regulators, interested parties and our customers in selecting the most appropriate solutions. We use economic and environmental capital metrics to help judge the most effective solutions to meet the challenges identified in our WRMP.

Drainage and Wastewater Management Plans (DWMP)

We have now developed and implemented a broad equivalent to the WRMP process for wastewater services. These are known as Drainage and Wastewater Management Plans or DWMPs. Interestingly producing similar plans will become a statutory obligation in the EU from 2025, putting the UK at the forefront of such developments. Our plan addresses the impacts that environmental pressures, climate change and customer pressures will have on the wastewater services we provide. These have highlighted significant need for further investment, particularly to reduce the impacts of storm overflows, the nutrient content in treated effluent discharges, flooding risks, and, in some cases, the impacts of wastewater operations on designated waters, such as those used for bathing. These needs are being addressed in our business plans both for the next 5-year period, and but also for subsequent periods. Our DWMP can be found at Drainage and Wastewater Management Plan | Dŵr Cymru Welsh Water (dwrcymru.com).

Innovation

Effective and embedded innovation remains key if we are to improve our services, reduce our carbon and environmental footprint, and increase the societal value we provide.

Over the past 12 months, we have continued to make good progress delivering the agenda set out in our Innovation Strategy, which we refreshed and published in 2022. We have been working with over 100 academic and other institutions, our centre of excellence for innovation – Spring Innovation Ltd, technology specialists, and global innovation concerns to undertake research, and develop and trial new technologies we can adopt. Our refreshed strategy confirms the original 2 drivers of our approach to innovation are still very much fit for purpose. see Our Challenges | Dŵr Cymru Welsh Water (dwrcymru.com).

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

So far this Asset Management Period we have received over 500 proposals for innovation at our Innovation Portal at dwrcymru.com/innovation, and completed some 69 Innovation projects arising from these. We have invested some £7.1m in leveraged research, achieving an overall leverage ratio of just over 8:1. We remain one of the most highly involved companies with the Ofwat Innovation funded projects, and look forward to the total size of available funds growing from £200m in AMP7 to £400m in AMP8. These innovations should enable us to drive further efficiencies in resource use and in our carbon and environment footprints, as well as financial benefits.

Our research work continues to be used to help support policy change in the EU through Eureau, the European industry trade body. We were pleased to see the inclusion of the principle of producer responsibility in the newly agreed Urban Wastewater Treatment Directive, requiring the pharmaceutical industry to fund at least 80% of certain treatment processes required to further reduce the presence of pharmaceutical products in treated sewage effluents. Similarly, the sector will be undertaking further monitoring of its performance, and environment footprint so that we can make better, more sustainable investment decisions going forward. This sets a powerful precedent and should assist the whole water sector and pharmaceutical and chemical industries to move to a more sustainable footing. Our research programme is now focusing on a wide range of topics, including how best to progress nature-based sustainable investments for our supply area.

We are planning our next biennial virtual Innovation Conference, celebrating our innovation successes to date, and looking forward to AMP8 in terms of establishing stronger partnerships to deliver improvements and efficiencies for our customers.

We remain very active in the support of Spring Innovation Ltd, the centre of excellence for innovation in the water sector. Spring is now fully operational and making great strides to progress one voice innovations and disseminate the knowledge arising from the trials work we as a sector undertake.

Biodiversity

Our 2022 Biodiversity strategy – which is available at https://dwrcymru.com/biodiversitystrategy sets out our ongoing ambitions, objectives, and action plan to maintain and enhance biodiversity and ecological resilience across our operational assets and landholdings, within the fulfilment of our functions. This strategy was enhanced and supported in 2023 by the publication of our new Estates Strategy. These two strategies enable the business to improve the delivery of our core functions while supporting our partners to address the biodiversity crisis we face. In so doing, we will help safeguard our environment for future generations to come, and meet the expectations of our customers.

Our Biodiversity 3 yearly plan was to be published in early 2024, but has been delayed until after we receive the PR24 draft determination so we can be sure that it reflects our funded obligations going forward into AMP8+. We will publish it in the late summer of 2024.

Our Biodiversity strategy notes that by improving water quality, we will also improve the ecology of our rivers. This remains the main focus for our biodiversity enhancements. Notwithstanding that a significant number of improvements to local activity centre sites and elsewhere have been made in 2023, and to land use changes in selected catchments with our partners to secure better raw water quality entering into our reservoirs and rivers.

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

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

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

Our biodiversity strategy links directly to our duty under Section 6 of the Environment (Wales) Act 2016. By delivering the strategy we will support and meet our legislative requirements relating to biodiversity and ecology, and so help move our business to a sustainable footing. The strategy aims to deliver performance improvements in both the short term and the medium-term through to 2030, and ensure our plans remain aligned with the longer-term objectives of Welsh Water 2050.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Protecting the Environment

ESG Objective 2 – Net Zero Carbon

We aim to achieve net zero carbon emissions of both operational and embedded carbon by 2040 – corporate.dwrcymru.com/en/ journey-to-zero. We signed the United Nations Framework Convention on Climate Change 'Race to Zero' pledge in February 2021. This obliges a 90% to 95% reduction in our absolute emissions, in line with Science Based Targets, with credible offsets being allowed only by exception, to decarbonise the remaining hard to abate activities and processes. We will work to ensure continuous improvement of our processes in order to minimise our impact on the environment and we ask our key supply chain partners to help us design innovative "green, nature based" solutions that benefit the environment and society generally, within the fulfilment of our functions. We have a comprehensive six-point plan to address our carbon footprint which has delivered substantial, ~70%, reductions in our emissions since our 2010/11 baseline. A summary of our progress and goals may be seen below. We will review our Net Zero Carbon pathway in light of the PR 24 Final Determination to ensure it is appropriately funded.

Our Goals

We have reduced total carbon emissions by 65% (compared to 2010 levels)

We will reduce total carbon emissions by 90% (compared to 2010 levels)

We will become carbon neutral

2020	2025	2030	2040	2050
We now self-generate 23% of our own energy needs	We plan to be 35% self-sufficient	We plan to be >50% self-sufficient	We plan to be 80% self-sufficient	We aim to become an energy neutral business

Underpinning the outcome of achieving Net-Zero by 2040 are a range of investment plans and work packages to deliver tangible progress on all 3 Scopes of our emissions. The six Work Packages are:

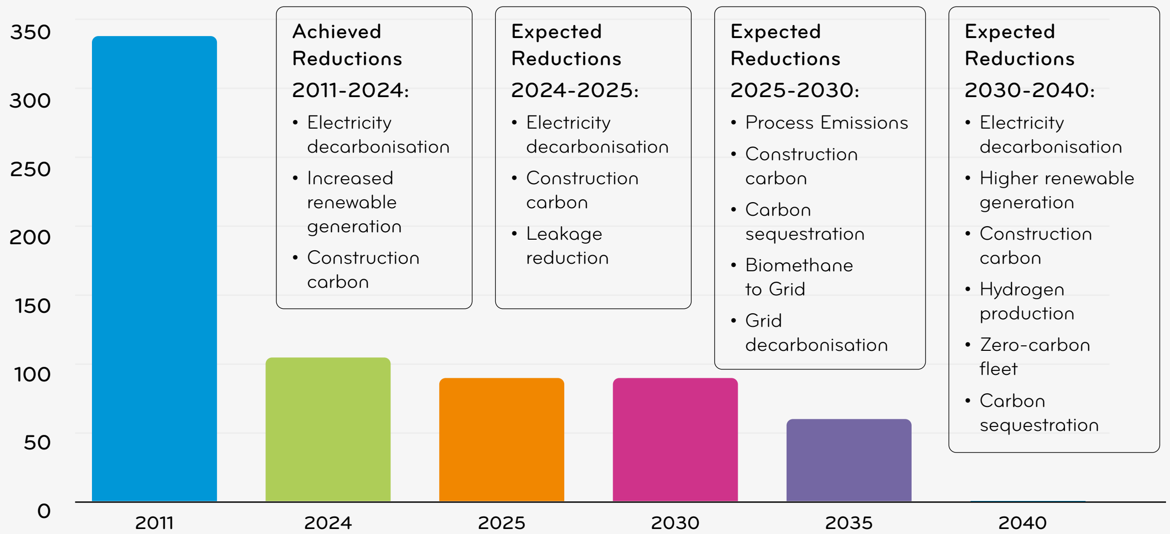
1. Reducing our use of energy and increasing own renewable energy generation
2. Using sewage-derived biogas to decarbonise heat and/or transport
3. Gradual transition to a low-carbon fleet of vehicles
4. Actively control and reduce fugitive emissions from treatment processes
5. Monitor and reduce construction-related carbon emissions
6. Maximise carbon sequestration and biodiversity

In line with the six parts of our Net-Zero plan Welsh Water has made the following progress during 2023/24:

1. We have invested £6 million in reducing our electricity consumption through pumps, motors and blowers, as well as agreeing a number of new Power Purchase Agreements with renewable generators, often Community owned.
2. We have begun design and feasibility work for a second Biomethane to grid facility, to decarbonise grid natural gas.
3. We have installed 25 new Electric Vehicle chargers across our Offices to support the transition to lower carbon forms of transport.
4. Our innovative site-based testing to verify the emissions from our wastewater processes, and how we will reduce them, has progressed across 6 different sites.
5. We continue to deliver carbon intensity reductions from our construction activities, meaning our emission per £ invested in upgrading services is lower than last year.
6. We are undertaking an estate wide review of our landholdings to develop investment plans to maximise carbon sequestration and enhance biodiversity through the current Price Review process.

Welsh Water's Environmental Social and Governance Committee and newly formed Sustainability Steering Group continue direct management attention to key initiatives to enhance the sustainability of our practices now, and for the future. These principles have informed the 2025 – 2030 Business Plan submitted to our Regulator Ofwat in October 2023, supporting the aspirations we have for further investment in decarbonisation toward our Net-Zero goal.

Kilotonnes CO_2 Equivalent



1 Reductions in carbon emissions associated with our construction activities are referred to in the graph as Construction carbon, which Ofwat refer to as Capital Carbon.

2 Welsh Water expects to see significant reduction in carbon emissions between 2030 and 2040 as we convert our fleet to non-fossil fuel powered vehicles, as well as the benefits from nature-based solutions and enhancing our landholdings to permanently store carbon dioxide 'carbon sequestration'.

Description	FY 24		FY 23	
all values in Kilotonnes of CO_2 equivalents	Location* based	Market* based	Location based	Market based
Gross annual operational GHG emissions				
(i) Scope 1 emissions				
Direct emissions from burning of fossil fuels (including combined heat and power (CHP) generated onsite)	**14.1**	**14.1**	12.9	12.9
Process and fugitive emissions	**40.6**	**40.6**	41.9	41.9
Transport: Company-owned or leased vehicles	**7.4**	**7.4**	7.7	7.7
(ii) Scope 2 emissions				
Purchased electricity**	**91.6**	**0.2**	90.7	11.9
Purchased heat	**0.0**	**0.0**	0.0	0.0
Electric vehicles	**0.0**	**0.0**	0.0	0.0
Removal of electricity used to charge electric vehicles at site	**0.0**	**0.0**	0.0	0.0
(iii) Scope 3 emissions				
Business travel on public transport and private vehicles used for company business	**0.7**	**0.7**	0.8	0.8
Outsourced activities (if not included in Scope 1 or 2) Energy and other	**9.4**	**9.4**	6.7	6.7
Purchased electricity (transmission and distribution)	**27.3**	**7.9**	8.3	8.3
Chemicals***	**28.8**	**28.8**	n/a	n/a
Purchased heat – transmission and distribution	**0.0**	**0.0**	0.0	0.0
Gross operational emissions	**219.9**	**109.1**	169.0	90.2

* Location-based factors help organisations gauge their impact within the physical locations where they operate, while the Market-based method accounts for the complexities and ramifications of purchasing decisions.

** We have changed our approach to report our Scope 2 carbon emissions to more accurately reflect the REGO backed energy we source.

*** We are addressing a historical lack of data from suppliers relating to this emissions source by including these emissions for the first time for this year and future years as part of our continued work to identify all emissions associated with our entire supply chain.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Protecting the Environment

ESG Objective 2 – Net Zero Carbon – continued

We are proud of our record of self-generating a significant proportion of the energy we use in our operations. This is central to our ambitions to reduce our carbon emissions and to increase resilience by becoming energy neutral in 2050, producing enough energy to provide our critical service to Customers, This investment helps keep our customers' bills affordable by reducing our operating costs. We use three main technologies to achieve this as explained below. The table below shows our energy self-sufficiency over the last five years and the incremental progress we are making. FY 22 was depressed by the drought adversely affecting our hydro-electric generation.

Energy self-sufficiency over the last five years:

Financial Year	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
% self-sufficient	23%	24%	24%	22%	22%	**24%**

As set out in Welsh Water 2050 we have interim targets to increase our energy self-sufficiency as follows:

2025 35% → **2030** 50% → **2040** 80% → **2050** 100%

Some specific examples of our renewable asset base follow:

Alaw WTW Solar PV

What is it?

Solar Photo Voltaic uses multiple panels to convert sunlight into electricity.

How does it work?

Sunlight creates a chemical reaction inside the panel releasing electricity.

Bolton Hill Water Treatment Works

This Treatment Works is shown above. This solar PV system is in a field adjacent to the Water Treatment Works in Pembrokeshire. The annual energy output displaces electricity that would otherwise have a carbon footprint of around 50 tonnes, as well as powering our Water Treatment Works.

Caban Coch reservoir

Caban Coch reservoir in mid-Wales. The buildings to the North and South of the river Elan each house a hydro-electric generator using water from the reservoir. These two turbines produce enough electricity to power ~1,500 homes and displace grid electricity, equivalent to 360 Tonnes of carbon dioxide emissions each year.

Five Fords Wastewater Treatment Works

Five Fords Wastewater Treatment Works near Wrexham is Welsh Water's sludge treatment centre, using multiple clean energy technologies. The site processes around 100,000 people's wastewater each year in addition to treating the sludge produced from across north Wales. This treatment process uses Thermal Hydrolysis (a steam pressure cooker) to pasteurise the sewage sludge and make it safe to recycle for use on farmland as well as enabling bacterial breakdown to produce methane gas in the digesters on site. This biogas is used in Combined Heat and Power engines and the biomethane-to-grid facility. The biomethane produced is exported into the gas grid and used in various domestic and industrial applications. The gas produced is equivalent to over 2,500 homes' heating needs and displaces natural gas which has a carbon footprint of over 7,000 Tonnes per year.

Anaerobic Digestion

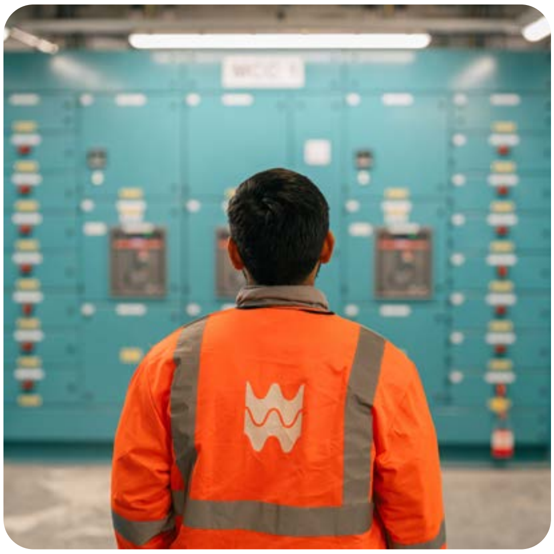
What is it?

The digestion of sewage sludge from our treatment works in tanks without oxygen allows bacteria to convert the sludge into a methane-rich gas.

How does it work?

The gas is burned in our engines and boilers to produce heat and electricity to power the site processes.

Hydroelectric generators



What is it?

Hydroelectric generators make energy from flowing water.

How does it work?

Hydro turbines are essentially modern water wheels using the pressure and flow of water to provide a turning force to drive generators, producing electricity.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Protecting the Environment

ESG Objective 3 – Adapting our assets and services to mitigate climate change risk

In October 2023 we published our Climate Change Adaptation report – see Our plans | Dŵr Cymru Welsh Water (dwrcymru.com). The report acknowledged the long-held view of many observers that climate change is a global existential threat. Water is on the front line in terms of the effects of climate change – whether it drives increased drought, storms, flooding, or sea level rise inundating communities. Doing all we can to adapt to the challenges of climate change, so we can continue to provide affordable and resilient services is one of our primary responsibilities and a growing priority for our customers. Wales was the first country in the world to declare a climate emergency. Our government was also the first globally to have set out in law a Future Generations Act, ensuring that any decision public bodies make today must be the right thing for our children and grandchildren, and their children too. Our 2050 Vision, closely aligned to both the Future Generations Act and to the UN Sustainability Goals sets our purpose as "providing 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 future generations to come". Adapting and mitigating the impacts of climate change therefore are both critical for us as a business if we are to deliver our Vision and Purpose.

Recent flooding and dry weather events both in Wales and globally have reminded us of the havoc our changing weather is already wreaking. The science tells us that events such as these will continue to increase and intensify as our world gets warmer. As the principal provider of water and wastewater services in Wales, we are driving our science and innovation agendas forward to support our net zero ambitions, and also to adapt our asset base to meet the challenges that are yet to come. The global climate outlook is grave, and we will not shy away from driving our emissions down to meet our net zero target at a pace our customers can afford, or to make our assets more climate resilient by deploying the latest science and technology to ensure our services can continue uninterrupted. All the while, we must be conscious of the affordability of services to our customers, particularly in a period of significant financial hardship and uncertainty. As a non-shareholder company, we are able to be guided solely by what is in the best long-term interests of our customers and the environment.

But we cannot adapt to climate change without the support and action of others. We are impacted by how others manage their land in catchments we abstract water from and how others manage their surface water drainage which connects into our sewerage system. Working in partnership with our government, local authorities and landowners remains key for our plans to adapt affordably to climate change. One thing is certain, without the support of our partners in Government, our Regulators and Local authorities, preparing and meeting the impact of Climate Change will be very challenging. Together as 'team Wales', by preparing well, and then delivering the resilient new infrastructure we need, we are confident we can adapt and meet the demands placed on us at a price our customers can afford.

Our AMP8 (2025-2030) Climate change plans for adaptation are focused on 'no/low regrets' activities and investments. These include driving leakage down; increasing customer metering; helping customers reduce their water use; protecting water quality and improving biodiversity; investing in further sustainable urban drainage systems and nature based solutions, and driving innovation and technology developments. We will also be undertaking extensive environmental monitoring and asset planning work, so as to improve the confidence in our two main planning tools for the longer term – our drainage and wastewater management and water resource management plans.

Our plans for AMP8 also include considerable investment in areas where service impacts are likely to be significantly impacted by a changing climate, including tackling storm overflows, improving wastewater treatment, and replacing mains that are bursting more frequently in hot, dry conditions. We have started on a journey to enhance our resilience, and we are proud of what we have achieved. There is much more to do, and to enable us to take an adaptive approach, we will monitor our progress including updating our Climate Change Adaptation Report at least every 5 years.

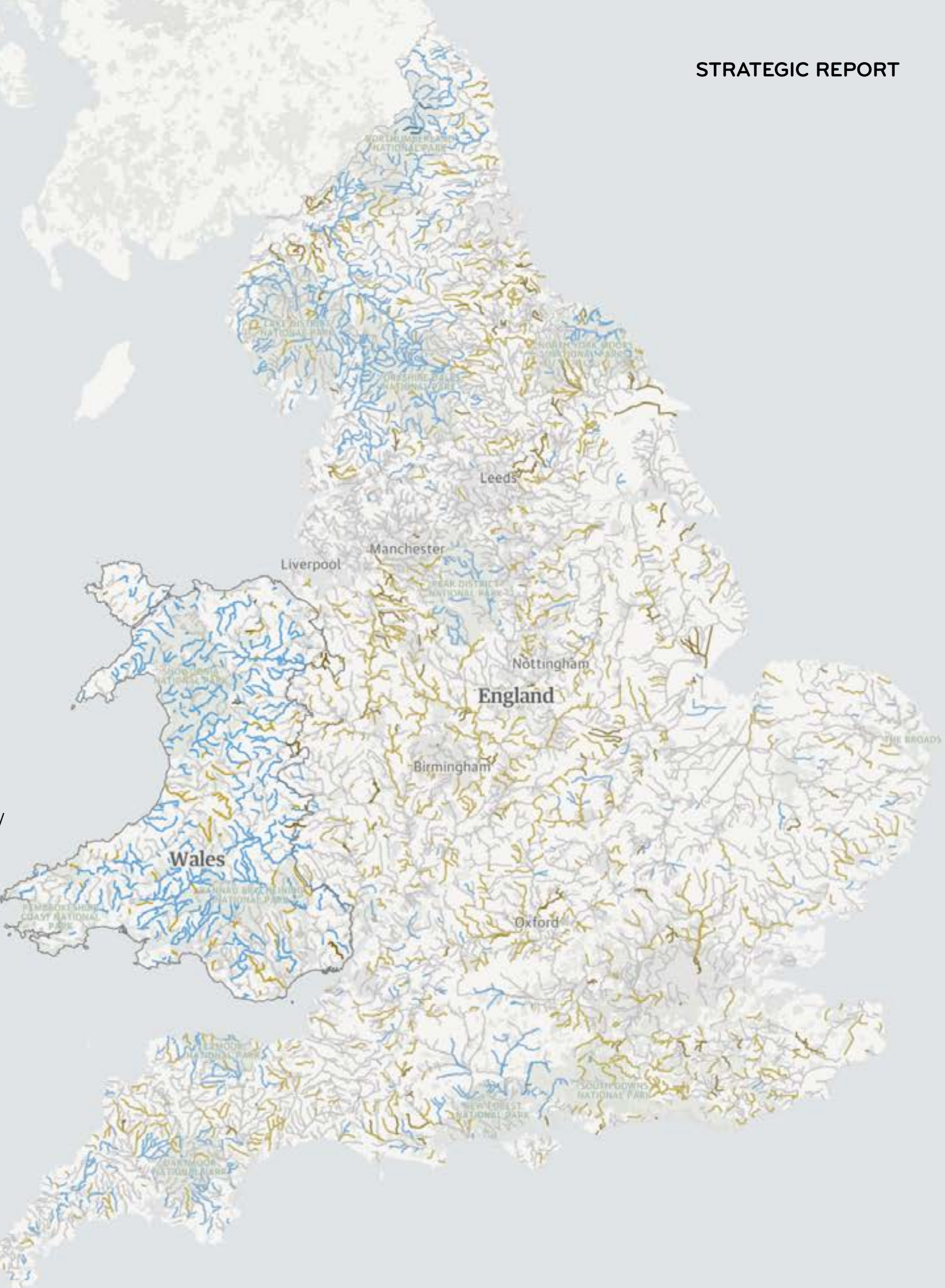
By the next iteration of this Climate Change Adaptation Report in 2027 we look forward to being better placed to narrow down the likelihood of adaptive strategies being triggered. We will have better models to predict the future climate, and how our assets will respond to that, and we will have developed and implemented new technologies to assist us to find affordable solutions to this challenge for our customers and society.

Climate change can affect river water quality in many ways, either directly or indirectly. The map on the following page shows the most recent ecological status of rivers in England and Wales, illustrating clearly the higher proportion of rivers in Wales classified as 'good' or 'high'.

Our River Water Quality in Wales

Improving River Water Quality, as with many or our investment programmes, is a long-term undertaking and benefits typically emerge over a period of years rather than months. 45% of our rivers in Wales achieved a "good" ecological status in 2021, compared with 27% in 2009.

Read more about our River and Storms manifesto on our site https://corporate.dwrcymru.com/en/community/environment



Ecological status

Most recent classification

- Bad
- Poor
- Moderate
- Good
- High

source: https://www.theguardian.com/environment/ng-interactive/2023/sep/12/unacceptable-how-raw-sewage-has-affected-rivers-in-england-and-wales-in-maps

Case Study

Improving gravel beds below our large, raised dams.

The construction of our dams can include the damming of numerous watercourses, creating a barrier to the natural movement of gravels downstream that normally provide essential spawning habitat for fish and promote river water quality.

Our Water Resources team has investigated over the last three years the sediment characteristics of the rivers upstream of Llwyn-on, Pontsticill and Talybont reservoirs. Working with the South-East Wales Rivers Trust and the Wye and Usk Foundation and others, we identified where the introduction of gravel would benefit fish habitat. Gravel nets and pressure plates were installed in the rivers to collect gravel samples and provide an estimate of the amount and size of gravel that would naturally travel along the riverbed.

Through close liaison with the Rivers Trust, we identified sources of gravel suitable for reintroduction into the rivers below our reservoirs, mainly reused from landslide sites in mountain streams or from river channel clearance. The gravels were tested, cleaned and sorted to ensure only the beneficial fraction remained, which was then introduced to the river ahead of the higher river flows that will disperse the gravel downstream, creating natural gravel beds.

A follow-up survey of the riverbeds will establish the success of the gravel augmentation work. We anticipate that future invertebrate and fish surveys will demonstrate the ecological benefits of this work.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Service Delivery

ESG Objective 4 – Tangible benefits for customers

Water Resilient Communities Project

We recently completed our Water Resilient Communities Project work in Newport, with preparations underway to focus on a new project area. This place-based project, which targets some of Wales' most deprived communities, brings together several services in an integrated effort. The project involved a partnership with the social enterprise, Grow Social Capital, which has developed our values-led approach towards partnerships and increased the purposefulness of the project's community work.

We have continued in a wide range of activities, including the delivery of free water saving devices, toilet leak appointments, attendance at events to support customers who may be struggling with their bill, and face-to-face support for customers in arrears.

Some of this year's most notable activities include:

- our Vulnerable Customer and Cartref (Water Efficiency) teams, in partnership with Newport City Homes, visiting 9 residential complexes to support with Get Water Fit products;
- our Education team providing adult literacy support to homeless guests at the Eden Gate Centre in Newport; and
- working with DWP and Job Centre Plus to promote career opportunities event.

As we move our focus onto the next 'place', this project will continue to challenge colleagues to reflect on the way that they support communities, discover innovative ways to maximise community benefit – and to apply the learning beyond the project.

Education Programme Delivery FY 24

Our education programme delivers enriching, informative and practical sessions to help inspire future generations. Covering a range of environmental and sustainability themes, as well as STEM (Science, Technology, Engineering & Mathematics) subjects, the demand for our free provision continues to be high. The experiences, knowledge and skills captured within our school outreach and education centre-based sessions mean that our provision is highly regarded by schools and pupils.

Over 75,000 pupils have taken part in one of our sessions in over 500 school visits – with our Education Team spending over 1,000 hours with pupils in classrooms. The content, created and presented by qualified teachers, uses a combination of outdoor, classroom-based, assembly and online sessions to ensure maximum impact and variety.

Partnership working and online delivery continue to be a key part of our strategy, ensuring pupils receive the utmost benefit from our education support. We have continued working in partnership with Keep Wales Tidy's Eco-Schools Wales initiative on a series of online interactive sessions, simultaneously streamed into classrooms each term, and reaching almost 2,000 pupils. We have also continued to work with Groundwork Wales and NRW – using the teachers' presence within schools to encourage key messages and enhance curriculum learning. The team this year are also working in partnership with the Eden Gate Centre in Newport on a numeracy and literature programme supporting guests at risk of homelessness.

The quality of our service and impact of our education programme is captured through teacher evaluations.

> FANTASTIC – THANK YOU. THE CHILDREN WERE 100% ENGAGED THROUGHOUT THE TASKS AND DIDN'T WANT IT TO END. EXCELLENT OPPORTUNITIES FOR COLLABORATIVE WORK. A WONDERFUL AND PROFESSIONAL MORNING. DIOLCH!.

Saundersfoot Primary School

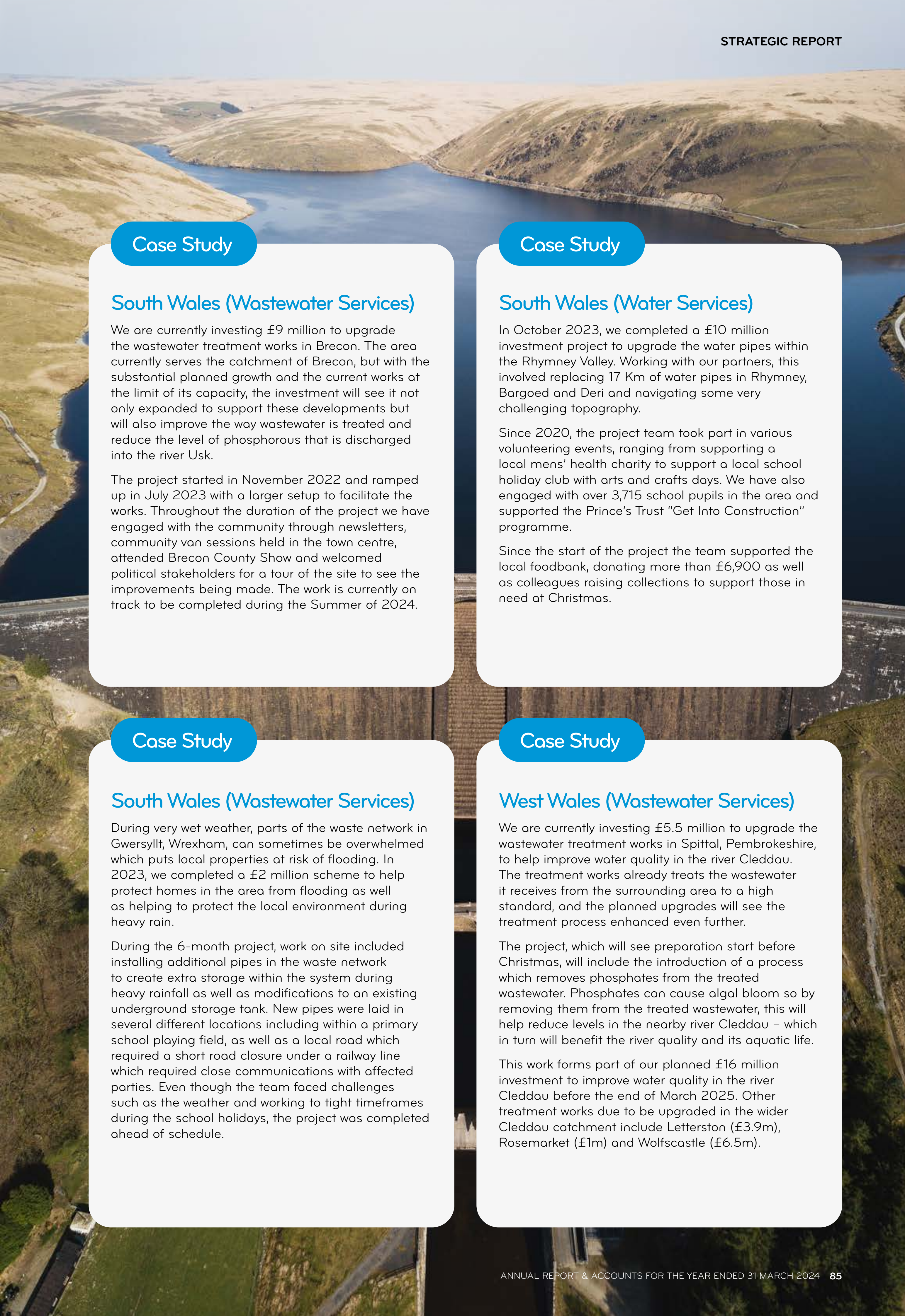
Case Study

West Wales (Wastewater Services)

We are planning to invest around £20 million to replace Cardigan Wastewater Treatment Works (WwTW) to help us change the treatment process to ensure the site will operate more efficiently to cope better with the influx of salt water from the tidal river.

As our new treatment works will require planning permission and an expansion of the site, we are planning to begin our work to replace Cardigan WwTW from April 2025 and expect this work to be completed by April 2027. Ahead of this work, we have been carrying out ground investigations at Cardigan works to help us design the layout of the new works and in the interim, we have installed an additional treatment process to help the works cope better during storm conditions. This was installed in October 2023 and will be in place until our work to replace the treatment works at Cardigan is complete.

Throughout planning this work, we have engaged with the community including key stakeholders, local river water quality campaign groups and the wider community, as well as sending a letter to residents in Cardigan on our plans to replace the WwTW in the near future.



Case Study

South Wales (Wastewater Services)

We are currently investing £9 million to upgrade the wastewater treatment works in Brecon. The area currently serves the catchment of Brecon, but with the substantial planned growth and the current works at the limit of its capacity, the investment will see it not only expanded to support these developments but will also improve the way wastewater is treated and reduce the level of phosphorous that is discharged into the river Usk.

The project started in November 2022 and ramped up in July 2023 with a larger setup to facilitate the works. Throughout the duration of the project we have engaged with the community through newsletters, community van sessions held in the town centre, attended Brecon County Show and welcomed political stakeholders for a tour of the site to see the improvements being made. The work is currently on track to be completed during the Summer of 2024.

Case Study

South Wales (Water Services)

In October 2023, we completed a £10 million investment project to upgrade the water pipes within the Rhymney Valley. Working with our partners, this involved replacing 17 Km of water pipes in Rhymney, Bargoed and Deri and navigating some very challenging topography.

Since 2020, the project team took part in various volunteering events, ranging from supporting a local mens' health charity to support a local school holiday club with arts and crafts days. We have also engaged with over 3,715 school pupils in the area and supported the Prince's Trust "Get Into Construction" programme.

Since the start of the project the team supported the local foodbank, donating more than £6,900 as well as colleagues raising collections to support those in need at Christmas.

Case Study

South Wales (Wastewater Services)

During very wet weather, parts of the waste network in Gwersyllt, Wrexham, can sometimes be overwhelmed which puts local properties at risk of flooding. In 2023, we completed a £2 million scheme to help protect homes in the area from flooding as well as helping to protect the local environment during heavy rain.

During the 6-month project, work on site included installing additional pipes in the waste network to create extra storage within the system during heavy rainfall as well as modifications to an existing underground storage tank. New pipes were laid in several different locations including within a primary school playing field, as well as a local road which required a short road closure under a railway line which required close communications with affected parties. Even though the team faced challenges such as the weather and working to tight timeframes during the school holidays, the project was completed ahead of schedule.

Case Study

West Wales (Wastewater Services)

We are currently investing £5.5 million to upgrade the wastewater treatment works in Spittal, Pembrokeshire, to help improve water quality in the river Cleddau. The treatment works already treats the wastewater it receives from the surrounding area to a high standard, and the planned upgrades will see the treatment process enhanced even further.

The project, which will see preparation start before Christmas, will include the introduction of a process which removes phosphates from the treated wastewater. Phosphates can cause algal bloom so by removing them from the treated wastewater, this will help reduce levels in the nearby river Cleddau – which in turn will benefit the river quality and its aquatic life.

This work forms part of our planned £16 million investment to improve water quality in the river Cleddau before the end of March 2025. Other treatment works due to be upgraded in the wider Cleddau catchment include Letterston (£3.9m), Rosemarket (£1m) and Wolfscastle (£6.5m).

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Service Delivery

ESG Objective 5 – Affordability

Over recent years, working with debt advice agencies, we have developed a range of financial support packages to help 130,000 vulnerable customers who struggle to pay their bills. Our latest support scheme, Cymuned, is aimed at providing working household customers with temporary support to pay their water bills. Until we launched Cymuned, working households were not usually eligible for financial assistance from Welsh Water, but the scheme enables us to provide short-term support if their household bills exceed their income. This is the only scheme of its kind being offered in the sector, and we have expanded its availability during FY 24 following its launch in late 2023.

Our 'Here for You' campaign aims to raise awareness of the financial support on offer from Welsh Water while breaking down perceived barriers for customers getting in touch if they're struggling.

Case Study

A HelpU example

"they just wanted to help..."

One of our most popular schemes is the HelpU tariff. This helps low-income households on a means-tested benefit by putting a cap on the amount they pay for their water, based on how many people are living at the property.

"I WAS AT AN APPOINTMENT AT THE JOB CENTRE WHEN AN ADVISOR SAID THAT SOMEONE FROM WELSH WATER WAS THERE TO HELP CUSTOMERS WITH THEIR BILL. INITIALLY, BECAUSE I KNEW I WAS IN DEBT WITH MY WATER BILL, I WAS WORRIED ABOUT SPEAKING TO SOMEONE FROM WELSH WATER. NOW, I WISH I'D DONE IT MUCH SOONER."

"JODY, WELSH WATER PROMOTIONS ADVISOR, WENT THROUGH THE OPTIONS THAT COULD BE AVAILABLE TO ME AFTER LOOKING AT MY INCOME AND SAID, 'WE CAN HELP YOU'. SHE HELPED ME REDUCE MY BILL BY £500, BY SETTING ME UP ON THE HELPU TARIFF AND HELPED MAKE MY PAYMENTS MORE MANAGEABLE SO I CAN CLEAR MY DEBT. THIS WILL MAKE A BIG DIFFERENCE TO MY FAMILY, AND I ONLY WISH I'D HAVE SPOKEN TO WELSH WATER SOONER; THEY DIDN'T CRITICISE AND JUST WANTED TO HELP. I COULD HAVE AVOIDED A LOT OF STRESS."

ESG Objective 6 – Engaging with our Customers

We engage with our customers on a regular and long-term basis, through research and focus groups, our community fund grants, and Water Resilient Communities programmes. Customer expectations are changing and developing, and we need to ensure that we meet these expectations while also focusing on the path to achieving the long-term goals we have set in Welsh Water 2050. We are developing a Sustainable Procurement policy, which will deliver benefits to communities through a more localised supply chain. We are also introducing user-centred design for improvements to customer service, and working with a wide range of stakeholders and customers on projects such as the Brecon Beacons Mega catchment initiative.

We gather data from our business-as-usual interactions with customers and engage with customers and other stakeholders in various ways on an ongoing basis. The insight produced by this engagement informs our day-to-day business decisions and priorities. Our wider customer engagement activities include:

Ad hoc research: customer research conducted by independent research agencies for one-off purposes e.g. customer responses to the introduction of Temporary Use Bans in Pembrokeshire during the extended period of drought in 2022.

Customer data-driven insight: this includes all customer contact data, complaints, feedback e.g. 'Rant Rave' which requests and collates customer feedback for each contact.

Tracker research: this monitors trends of key topics over time e.g. our Trust Tracker monitors trust, value for money and other issues monthly.

Public events: our £1 million a day investment in our water and wastewater services in communities can cause disruption and inconvenience to our customers. This is why we proactively communicate with customers before starting the work and often host community events for high impact schemes to explain to customers what we are doing and the likely duration and impact of the work.

To help inform our Business Plan for 2025-30, we commissioned an extensive customer engagement and research programme involving nearly 6, 000 household customers and over 1000 non-household customers on a range of issues such as customer priorities, long-term needs and affordability. We also arranged two public 'Your Water, Your Say' events in April and November 2023 which included a self-selecting sample of our customer base and stakeholders. With over 120 customers attending across both events this allowed customers to provide feedback on draft PR24 plans and included questions on the environment, our investment program and help for vulnerable customers.

Case Study

Your Water, Your Say Public Meetings

Getting meaningful feedback and input from our customers to help inform our long-term business planning and day-to-day decision-making is vitally important to ensure that our plans meet our customers needs and expectations. As we have seen in recent years, especially since the Covid-19 pandemic and during the cost-of-living crisis, our customers' needs and expectations can change over relatively short periods of time and we conduct regular customer research and regular face-to-face public meetings to gather our customers' views.

As we prepared our AMP8 Business Plan, we held two public, online meetings (in April and November 2023) to outline our draft plans and then how we'd amended them following some of the feedback we'd received. Both sessions were hosted by an independent chair and included presentations from Pete Perry, Chief Executive of Welsh Water, and other members of the Leadership team. The sessions were well attended by customers and a variety of organisations that had an interest in various aspects of our plans. Customers were able to submit questions to the chair in advance of the sessions or to ask them during the events themselves. A lot of ground was covered over the course of the two sessions – from environmental impact to affordability, from executive pay to water quality, and from carbon reduction to fish stocks in Welsh rivers. Summaries of the sessions, copies of the presentations and a report on how the company reflected the points raised in its Business Plan submission to Ofwat are all available on our website.

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Service Delivery

ESG Objective 7 – Diverse Workforce

Our most important asset is our workforce, and attracting and retaining people with the right skills and diversity of experience, background, and personal characteristics to meet the future challenges that our business will face is a key priority. Our culture and values are embodied in our workplace policies such as our Health, Safety & Wellbeing policy, support an inclusive workplace where colleagues can take pride in "Earning the Trust of our Customers Every Day".

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

The water sector has historically had a predominantly white male workforce. We have, therefore, continued our focus on improving our diversity across genders, LGBQT+, non-binary, race, disability, social background and more, to better reflect the communities we serve.

Our work to reinforce this culture continues to be supported by, among other things:

- Monitoring progress using qualitative and quantitative data to highlight where barriers exist and to show the effects of our interventions so we can make appropriate adjustments where needed.
- Using employee-led network groups and our Equality, Diversity and Inclusivity Forum as a platform for feedback and improvements.
- Appointing ambassadors for all protected characteristics
- Encouraging staff to self-declare relevant characteristics to support a data-led and evidence-based approach.

In addition to our internal programmes supported by the approaches outlined above, we have continued to develop our external relationships with organisations including

- Energy and Utility Skills
- Business in the Community
- Stonewall Cymru
- Mahogany Inclusion Partners
- Women in Science and Engineering

Our successful partnership with the University of South Wales continues to deliver our network75 programme combining work placement and part-time study as a route to a degree.

We have appointed 46 apprentices and trainees this year, exceeding our internal target, and we intend to increase the number of places available for FY 25.

For our gender pay gap data please see the Remuneration report from page 132.

We have raised the proportion of staff who self-declare personal characteristics to 80%, meaning our data is now sufficiently robust to report for the first time our our ethnicity gap (see our remuneration report). This data will also give us a better evidence base from which to develop future EDI initiatives.

Other selected EDI metrics: Females appointed to senior roles in FY 24 = 6 (FY 23 = 7)

Senior talent pipeline potential heads of service, proportion who are female FY 24 = 40% (FY 23 = 35%)

Protecting the Environment

ESG Objective 8 – Adapting to Future Challenges

Welsh Water 2050 describes our commitment to plan for the long-term, anticipating and responding proactively to the emerging risks and opportunities[1]. This enables us to respond in a way that is timely, effective, and affordable.

As detailed in the review of our Welsh Water 2050 in support of the development of our business plan for AMP8, we believe there are 8 key trends that are likely to have the most significant impact on service provision over the long term.

We summarise here how we are adapting to these trends so as to meet this ESG objective.

1. **Climate change** – Climate change as set out in our Climate Change Adaptation report published in October 2023, will result in more extreme rainfall events, which is likely to lead to an increased risk of flooding and pollution. Drier, hotter summers are projected for Wales, which could result in water supply deficits and the potential for increased water demand[2].
2. **Change in customer expectations** – Customer expectations are likely to continue to change with an increasing 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.
3. **Environmental change** – Our research and that of others confirm that for society to prosper in a sustainable manner, we must further protect our environment from pollution. Invasive species, land use change and an increased risk of environmental pollution may also lead to a reduction in water quality and species loss. However, cooperative approaches to the delivery of enhanced ecosystem services, should lead to better environmental and societal outcomes.
4. **Protecting essential infrastructure** – Ageing infrastructure, a concentrated supply chain and cyber security remain key concerns for future service provision. Technological advances could lead to significant efficiencies in the planning, delivery, and operation of new assets. Our innovation programme and support for Spring – the Innovation centre of excellence we help set up in 2022 remain focused on these priorities.
5. **Protecting public health** – Regulatory standards to protect drinking water quality continue to tighten. We have also invested significantly in 2023 to develop our recreational activity centres to support social wellbeing and value by promoting healthier and more sustainable lifestyles for our customers.
6. **Policy and regulatory change** – The pace and extent of changes in policy and regulation are expected to continue driving ever tighter environmental and drinking water quality standards.
7. **Changes to 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 present a challenge to us continuing to meet the needs and expectations of our customers.
8. **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, opportunities will emerge to develop a more diverse age profile in the workforce.

1 Climate Change Adaptation Report. https://corporate.dwrcymru.com/en/about-us/our-plans

2 Welsh Water 2050 Review and Update. https://corporate.dwrcymru.com/-/media/Project/Files/Page-Documents/Corporate/Our-Plans/Water-2050/Welsh-Water-2050-Review-and-update-2022---English.ashx?la=en&hash=6CC3574C0D6DCF44A4E31A071F8D000970A78767

SUSTAINABILITY & ESG OBJECTIVES CONTINUED

Protecting the Environment

ESG Objective 9 – Demonstrating Accountability

Given our clear company Purpose, which was incorporated into our constitution through the amendment of our Articles of Association in 2019, we are already committed to ensuring that Welsh Water is a wider force for good in all of our interactions with customers, communities, landowners and developers across our supply area. The increased focus on ESG issues and growing interest from bondholder investors about our activities in these areas led us to establish the ESG Committee as a committee of the Board in 2021.

The Committee is responsible for setting and reviewing our ESG Strategy, reviewing our performance against a set of performance indicators relevant to Environmental, Social and Governance issues, and monitoring the quality of our corporate reporting of these issues, to ensure we follow current and emerging best practice in this area. As part of this, we have reviewed our risk governance and the effectiveness of our consideration of climate-related risks and opportunities, and we have used our preparation for the third year of Task Force on Climate-related Disclosures to ensure these issues are fully integrated into our long-term planning and strategy. As well as TCFD reporting, we are actively reviewing other nature-based reporting frameworks, to see if and how we might make use of them to improve our corporate governance arrangements for biodiversity specifically, and to mitigate our other environmental footprints.

Meanwhile we have worked hard to improve our ability to report in almost real time on the operation of our storm overflows and the quality of bathing waters in our operating area, because these are aspects of our operation which are of particular interest to the communities we serve.

ESG Objective 10 – Working Collaboratively

One of the prevalent features in Wales is our ability to work in close partnerships, as is required of public bodies under the Well-being of Future Generations (Wales) Act.

The Act requires public bodies to demonstrate in their decision making the impact that they could have on people living in Wales in the future as well as in the present. This is to show that they are acting in accordance with the sustainable development principle, as defined in the Act. The Act directly supports 5 ways of working which are all compatible with our Vision and views on sustainability, albeit we are not a public body as defined under the Act.

These are:

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

4-STAR EPA RECOVERY PLAN

As noted in the Chair's statement and the Chief Executive's message our performance on certain measures is below where we and others want it to be – in particular, our rating under Natural Resources Wales' annual Environmental Performance Assessment has declined since 2021, when we last achieved the highest rating of four stars. We recognise our recent assessment of two stars in 2023 was unacceptable and we are determined to recover our former industry-leading status. We have developed a clear plan to improve performance in this area and summarise some of our key activities below.

Like all our current plans, these are subject to the outcome of Ofwat's Price Review process as this may affect affordability, deliverability and financeability.

Recovery Plan – Our Commitments		
Reducing our pollution	We have plans to reduce the number of pollution events from our assets, and tackle those assets that are growing risks of pollution incidents. We have increased the monitoring of assets.	We aim to reduce pollution to no more than 66 by 2030.
Wastewater treatment compliance	We will improve asset performance through investment at high-risk sites and increase monitoring at other sites.	We aim to achieve 99.5% compliance by 2030.
Reducing serious pollutions events	We are tackling the 10 rising mains and pumping stations that have the biggest environmental impact, causing serious pollution, by 2030. This will be achieved through our investment plans.	Combined with blockage reduction we aim to see a 40% reduction by 2025 and to eliminate these by 2030.
Achieving 4 star EPA	We aim to deliver against all commitments outlined in this EPA recovery plan. to return to industry-leading in Environmental Performance Assessment rating and, more importantly, to improve the environment of which we are custodians.	We aim to be 3 star by 2025, and achieve 4 star by 2030.
Safe disposal of 100% of sludge	The Biosolids Assurance Scheme (BAS) ensures that we recycle biosolids in a safe and responsible way.	We aim to treat 100% of our sludge through anaerobic digestion
100% WINEP programme delivery for AMP 7 and future AMPs	We have met all our commitment under the WINEP programme delivery since 2020 and aim to continue this achievement throughout the AMP 8 programme through a dedicated delivery team.	We will continue to achieve 100% of our WINEP commitments
Maintaining supply demand balance index at 100%	We aim to continue to achieve 100% by addressing risk zones such as the mid and south Ceredigeon zone.	We will continue to invest and make improvements to our network and achieve 100%.

GOVERNANCE REPORT

Contents of this section

CHAIR OF THE BOARD'S INTRODUCTION TO GOVERNANCE

SOUND CORPORATE GOVERNANCE IS AN ESSENTIAL FEATURE OF THE DECISIONS WE MAKE TO SUPPORT OUR DELIVERY OF ESSENTIAL PUBLIC SERVICES.

Alastair Lyons CBE
Chair of the Board

Key focus areas in FY 24

- Considering the issues highlighted through ongoing scrutiny of operational performance and the examination of the appropriateness of the resulting action plans to improve performance where currently falling short of our objectives and regulatory requirements, in particular our Environmental Performance Assessment (EPA).
- Overseeing the Company's progress in reducing its impact on the environment through its River Quality strategy and Storm Overflow programme.
- Ongoing preparation for PR24 in the context of understanding the implications of Ofwat's Final Determination and receiving updates from the Regulatory and Asset Planning teams and DCE on the progress with putting into effect the investment projects proposed in the Company's PR24 business plan.
- Reviewing and scrutinising the PR24 Business Plan submitted to Ofwat on 2 October 2023, and assuring staff that the plan is affordable, deliverable and financeable.
- Approval of a Funding Strategy for AMP8, which ensures that sufficient liquidity headroom is held to withstand adverse developments in funding markets and to minimise market risk and maximise the opportunities in different debt markets, at the best rates.
- Overseeing the development and implementation of plans to adapt to the challenges of climate change, so we can continue to provide affordable and resilient services.
- Ensuring the Company continues to provide support to those customers who struggle to afford their bills, and who have characteristics of vulnerability.
- Assessing the demands placed on our people by our 24/7 operations and ensuring we have in place the appropriate resources and organisational design.
- Overseeing progress with the collaboration approach to PR24 in Wales through the PR24 Forum with the Welsh Government, Ofwat and other stakeholders to agree the implementation of the right plans for the future.
- Overseeing the progress of the DPC Project Committee to construct a new water treatment works in the Merthyr Tydfil area, ensuring that the scheme meets the requirements of Ofwat's Direct Procurement for Customers (DPC) delivery model.
- Ensuring an effective and appropriate succession for myself when I retire as Chair at the end of 2024

The last year has seen an increasing number of challenges impacting the water sector, the Group and its customers.

Throughout the year, the discussions of the Board and its Committees have centred on an increasingly demanding operational and regulatory landscape and the impact this has had on the Group and our employees. A particular focus of Board activity has been the preparation of our plan for the next regulatory price review, PR24, identifying the need for a material increase in the level of the Group's investment in order to improve its operational resilience, particularly with regard to the avoidance of pollution incidents. The Board was reassured to see the high level of support this plan received from our customers despite the significant increase in bills that it would require. Equally, the Board has considered the ongoing cost-of-living crisis, which has been compounded by geopolitical events, increases in energy costs and rising inflation and interest rates, and how the business is able to provide support for our customers, particularly in anticipation of higher bills to come.

As a Group, we are well-positioned to manage these impacts, and the Board remains confident that the Group is able to continue to fund higher social tariffs and community grants alongside increasing capital investment activity to continue delivering for the communities we serve. Over the past year, as set out in our Manifesto for Rivers in Wales, the Board committed an additional £100 million from Company funds towards improving river water quality over and above the investment that is funded from customer bills.

CHAIR OF THE BOARD'S INTRODUCTION TO GOVERNANCE
CONTINUED

The Board and its Committees adopt a holistic approach to governance and oversee and scrutinise the operations of the Group as opposed to focusing separately on segregated sections of activity. This has enabled the Board to maintain strategic oversight of the Group's performance against, and compliance with, key regulatory, operational and strategic objectives.

Focus of the Board in the last 12 months

Operational performance

Given the scale of the operational and environmental challenges confronting the Group over the last 12 months, as discussed in both my and the CEO's statements, the Board, and in particular, the Quality and Safety Committee have applied significant focus to reviewing the Company's progress against its operational measures with the Executive Directors and the Group's Managing Directors, who are permanent attendees at the Board.

Significant time was spent reviewing the Group's performance recovery plans and action being taken to improve the performance of the Group's Storm Overflows given the intensifying focus on this by the public, media and our regulators. Alongside this, given the ongoing cost-of-living challenge to which our customers are subject, there was in-depth consideration of the Company's Vulnerable Customer Strategy and of our ongoing progress to support customers in vulnerable circumstances, including the expansion of the Cymuned (Community) Fund to support working households, not in receipt of benefits, who are experiencing financial difficulties.

Investigation of leakage reporting

The potential for a leakage reporting issue was first brought to the Board's attention in May 2022 and immediate action was taken to better understand the root cause of the issue. As reported in last year's Annual Report and Accounts, a third-party review was initiated of our interpretation of Ofwat's guidance on the reporting methodology for two Performance Commitments – Leakage and Per Capita Consumption (PCC). Internal reviews took place in parallel with the third-party review and the outcomes of these reviews have been considered by the Board directly and through the work of its Committees during the year, including in detail by the Leakage and Per Capita Consumption Committee, which was established as a task-and-finish committee specifically to establish oversight of this review, and which I Chaired. A comprehensive and detailed report into our findings was submitted to Ofwat in November 2023 and in March 2024 Ofwat published its own draft report on its investigation into the Group's misreporting of Leakage and PCC. The full detail of that announcement and the Group's response to this can be found at page 03. The Committee satisfied itself both as to there not being any other areas where there was the potential for misreporting of regulatory information, and that the necessary learning had been taken from the review and actions implemented to prevent a recurrence. In March 2024, Ofwat reported on their investigation into our historical misreporting of performance data relating to leakage and per capita consumption. As set out in the Chief Executive's message on page 15, we have reiterated our apology for this issue and acknowledge that the outcome aligns with the findings of our own investigation shared with Ofwat in May 2023.

PR24 planning

The Board's strategy day was held in November 2023 debating strategic and long-term business priorities, including the Group's Financing Strategy to support the significant increase in funding required to meet the PR24 investment plans.

A particular focus of the Strategy Day was the continued development and refinement of the Group's preparations for the implementation of plans submitted to Ofwat on 2 October 2023 for the next 5-year price review, PR24, and understanding the challenges and opportunities for Welsh Water in the context of the PR24 proposals put forward by the water sector as a whole. We recognise the crucial importance of working in partnership with our key stakeholders to deliver on our plans, and this plays a vital role in our decision making. Examples of the decisions taken in relation to our stakeholders, together with details of our engagement with them, are set out in the Board's S172 Statement on page 51.

Governance changes

During the year, the Board has noted and, where appropriate, approved the implementation of the following enhancements to our governance processes:

- Given the focus of the Group on improving its operational performance it was agreed that from March 2024, all Non-Executive Directors would attend the Quality and Safety Committee so that the whole Board understood in some detail the progress that was being achieved and had the opportunity to scrutinise and challenge our performance.

- Establishment of an Executive-level Climate Change Committee, reporting to the DCE, to oversee the Group's climate change adaptation strategy with the underlying objective of planning the adaptation needed to ensure the Group can sustainably meet its strategic goals and public service commitments. The outputs from the work of this Committee are in turn overseen by the Board's Environment, Social, and Governance Committee. The activities of the ESG Committee are set out on pages 129 to 131.

Our people

The Board considers it very important to have direct engagement with our colleagues, as this provides an opportunity to gain an understanding of the day-to-day challenges they face, from both operational and office-based perspectives, and is one of the ways we monitor culture and behaviours.

Similarly, the Board values the opportunity to undertake operational site visits, which enable face-to-face meetings with colleagues (see page 110 for details of these site visits during the year). These visits give us the opportunity to discuss and appreciate some of the issues facing the business at first hand and provide us with opportunities to see the great work being undertaken across the business by our colleagues.

We are pleased to see the progress that has been made in the area of diversity and inclusion during the past year and we are proud to support the publication of the Group's Ethnicity Pay Gap data in addition to broader Gender Pay Gap data. This further demonstrates the Group's ongoing commitment to work-based equality. See page 150 for further details.

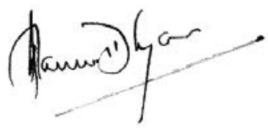
Our members

The Company's Annual General Meeting (AGM) is held in July each year and welcomes a large number of our Members. We appreciate the valuable role our Members perform in relation to our non-shareholder model in holding the Board to account. We are fortunate that through our annual Member recruitment process we are able to attract individuals from a wide range of backgrounds who share an interest, not only in our Purpose (the what we do and for whom), but also in our culture (the how), both of which focus on delivering the best outcomes for our customers and the environment. Further detail on our engagement with Glas Cymru Members is on page 110.

Board evaluation and succession

Details of the internal evaluation of the Board's performance is set out on page 113 of this report. Following completion of this evaluation, a Board Effectiveness Plan has been devised, which will be presented to the Board every four months to ensure that recommendations are tracked and implemented.

In addition, the Board has undertaken a self-assessment of its activity against the UK Corporate Governance Code 2018 (the Code) and Ofwat Board Leadership, Transparency and Governance Principles (Principles). That review has evidenced that the Board has applied the Principles and complied with the Provisions of the Code as we are required to under the terms of the Common Terms Agreement, which governs our debt issuance. I am confident as to the quality of the Board's decision making and compliance and that the Group has complied during the year with the key principles of good governance.



Alastair Lyons CBE
Chair of the Board

6 June 2024

GOVERNANCE FRAMEWORK

Our governance framework, as set out opposite, shows the relationships between the Glas Members, the Board and the Board Committees.

Selected operational and management committees are also included. All Board Committees have formally established Terms of Reference, which define their scope, responsibilities and means of operation (Committee Terms of Reference can be found at the following link: corporate.dwrcymru.com/en/library/terms-of-reference). The Company Secretary works closely with the Chair of the Board and the Board Committee Chairs to ensure appropriate and timely information flows are maintained. Committee membership, terms of reference and effectiveness are all reviewed annually. Further detail on each Board Committee is provided on the following pages.

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

The DCE, appointed by the Chief Executive Officer, comprises 19 individuals representing all the key functions of the business and including risk management and internal audit functions.

Also supporting the DCE 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 a Committee that involve financial spend or an associated risk are governed by the Group's established Delegations of Authority.

This is structured to ensure that day-to-day operational decisions can be taken efficiently, while ensuring higher-risk and high-value commitments go through the appropriate channels for approval.

By maintaining this structure of management control, we ensure our operations are run effectively, and decisions are made in line with our commitment to our values and 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 other stakeholders; 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 51 to 53.

Our Members

Individuals independently drawn from across our supply area (with no financial stake in the business) who hold the Board to account. In the same way as shareholders would in a shareholder-owned company, Members are responsible for the following: receiving the Annual Report and Accounts, approving the Directors Remuneration Report, approving the Directors Remuneration Policy, electing and re-electing Members of the Board, appointing the Groups Auditors.

The Board

The joint Board of Glas Cymru Holdings Cyfyngedig (Glas Cymru) and Dŵr Cymru Cyfyngedig (Dŵr Cymru) is responsible for the overall conduct of the Group's business, including our long-term success in meeting the needs of our customers and the communities we serve; 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. Having regard to the duty of all Directors under Section 172 of the Companies Act 2006, the Board has reserved to itself, among other priorities, approval of long-term objectives and Annual Operating and Capital Expenditure budgets. The full detail of the Matters Reserved to the Board are described in the Board's Terms of Reference (corporate.dwrcymru.com/en/library/terms-of-reference).

Quality and Safety Committee (QSC)

Reviews and monitors operational performance relating to water, wastewater and the environment and risks to the business arising from operational and health and safety-related issues. Reviews compliance with regulatory requirements of DWI, NRW, and the EA.

Audit Committee

Reviews the integrity, adequacy and effectiveness of the Group's systems of internal control and risk management and related activities. Examines any cases of whistle-blowing, ensuring full independent assessment of any issues raised and the taking of appropriate action in resolution.

Nomination Committee

Reviews Board composition and ensures Board diversity and balance of skills. Reviews Board and DCE succession plans to maintain continuity of skilled resource. Responsible for the process of recruiting new directors and recommending to the Board for appointment.

Technology Committee

Reviews the development and implementation of the Group's digital strategy. Maintains 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.

Finance Committee

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

Remuneration Committee

Sets, reviews and recommends the policy on remuneration of the Chair of the Board, the Executive Directors and the senior management team. Maintains oversight of the remuneration policies and practices for the whole workforce, having regard to these when determining the remuneration of the Executive Directors.

Environment, Social and Governance (ESG) Committee

Oversees the Group's ESG Strategy and the proposed ESG targets. Considers how all elements of the ESG Strategy are reported and measures are adopted by the Company, and monitors performance against the Company's ESG targets. Ensures that the Company develops and maintains appropriate policies to effectively support its ESG Strategy, particularly its environmental impact.

Direct Procurement for Customers (DPC) Project Committee

Oversees progress of the construction of new water treatment works in the Merthyr Tydfil area and makes recommendations to the Board in relation to the necessary approvals and Board assurances required under Ofwat's DPC delivery model.

Leakage and Per Capita Consumption Committee

Established during FY 23 as a task-and-finish Committee to oversee the review of misstatement of leakage and per capita consumption data during FY 21 and FY 22. Going forward, the Committee will oversee the Group's Leakage Recovery programme delivery.

Dwr Cymru Executive Committee (DCE)

Comprising the leaders of the principal business units and functional areas, the DCE 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.

Key Executive-level forums that support the DCE

Information Security Steering Group (ISSG)

Ensures that the Group's information is protected, and risks are mitigated. The ISSG is supported by a Data and Analytics Steering Group.

Asset Investment Group

Ensures the effective delivery of the Group's capital programme.

Policy Approval Committee

Supports the review, approval, and communication of Group policies.

Welsh Water Holdings Board

A subsidiary company of Glas Cymru Holdings Cyfyngedig (Glas Cymru), which oversees the Group's commercial entities that sit outside of the regulated business.

Regulation Steering Group(s)

The Triage team meets fortnightly to discuss developments in the industry and agree forward plans to address regulatory requirements. In addition, we have a specific steering group for Charges and one focused on PR24.

Leakage Performance Review

Provides guidance, support, and recommendations to the DCE in achieving the objectives relating to leakage performance and recovery.

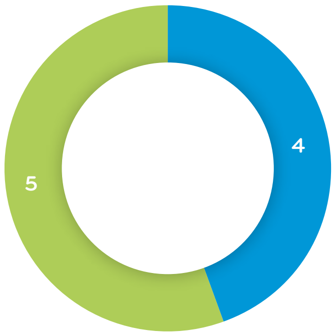
Climate Change Committee

Oversees the Group's climate change adaptation strategy with the underlying objective of planning the adaptation needed to ensure the Group can sustainably meet its strategic goals and public service commitments

GOVERNANCE AT A GLANCE

Board composition statistics

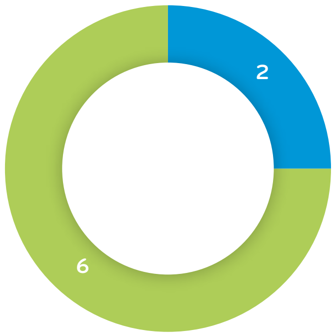
Gender diversity



- Female
- Male (including Executive Directors)

See page 112 on Directors' independence.

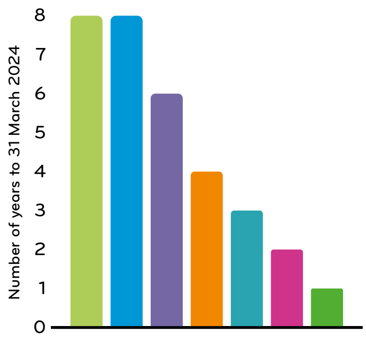
Independence



- Non-Executive (excludes Chair)
- Executive Directors

Tenure of NEDs in post at 31 March 2024

Shown to the nearest full year to 31 March 2024



- A Lyons
- J Kenrick
- T Crick
- D Bowen Rees
- J Hanson
- L Thompson
- B Moorhouse

Directors skills and experience

In determining the composition of the Board we aim to have at least one non-executive director who professes themselves expert in each area of skills and experience that is material to the determination and delivery of the Group's strategy.

Meeting attendance

Nine Board meetings took place during the year. The table below shows the actual number of meetings attended and the maximum number of the Board and Committee meetings that the Directors could have attended. Every effort is made by Board members to attend all meetings.

Director	Board	QSC[6]	Audit	Remuneration	Nomination	Finance	Technology	ESG	DPC[7]	Leakage and PCC[8]
Peter Perry	9/9	6/7	5/6	5/5	4/4	–	4/4	3/4	1/1	9/10
Mike Davis	9/9	5/7	6/6	–	–	–	–	4/4	1/1	9/10
Alastair Lyons	9/9	6/7	–	5/5	2/2[10]	–	4/4	4/4	1/1	10/10
Graham Edwards[1]	3/3	2/2	–	–	1/1	–	–	–	–	–
Debra Bowen Rees[2, 3]	9/9	6/7	6/6	4/5	3/3	–	–	4/4	0/1	–
Tom Crick	9/9	5/5	–	5/5	2/2[9]	–	4/4	–	–	–
Jane Hanson[4]	9/9	3/3	6/6	–	–	–	1/1	3/4	0/1	9/10
Joanne Kenrick	9/9	5/5	6/6	5/5	4/4	–	4/4	–	–	–
Barbara Moorhouse[5]	9/9	7/7	–	–	–	–	1/1	–	–	–
Lila Thompson	9/9	7/7	–	–	2/2[9]	–	–	3/4	–	–

1 Retired at the July 2023 AGM.
2 Joined the Nomination Committee in July 2023 and the DPC Committee in February 2024.
3 Stood down from the Remuneration Committee in 2024.
4 Attends Technology Committee at the invitation of the Committee Chair.
5 Joined the Technology Committee in March 2024.
6 As of February 2024, all Board Members will attend QSC meetings.
7 Direct Procurement for Customers Project Committee.
8 A purpose-formed task-and-finish Committee of the Board established in March 2023 to oversee the leakage and per capita consumption review but will remain in place to oversee deliver of the recovery plan.
9 Attended specific Chair succession meetings of the Nomination Committee.
10 Chair of the Board did not attend specific Chair succession meetings.

BOARD ACTIVITY

Specific Board and Committee activities

Board composition and succession

Progress made

The Board reviewed Board and Committee size and memberships in February 2024 following completion of the Board's internal effectiveness review.

Action taken:

See page 115 (Nomination Committee Report) for changes made to Committee memberships.

External Auditor transition

Progress made

Following completion of the external Auditor re-tender process during FY 23, the Audit Committee supported and oversaw the transfer of external audit functions to Deloitte LLP.

Action taken:

See page 121 for details of the Audit Committee's activities.

Meeting the environmental challenge

Progress made

The Board considered in detail the metrics that describe the impact of the Company's activities on the environment, in particular on river water quality in our operating area, and reviewed with management the plans developed during the year to minimise the resulting ecological harm. A key part of this has been the Company's development of its first Drainage and Wastewater Management Plan and the determination of the nature and scale of the environmental investment plan that is deliverable, financeable and affordable by customers in the next and subsequent AMPs.

Action taken:

The Company published its Manifesto for Rivers in Wales on 18 May 2023 and announced record environmental investment over the final 2 years of AMP7 and in its proposed PR24 Plan between 2025 and 2030 (AMP 8), which it outlined to, and gained the agreement of, the PR24 Forum led by the Welsh Government and the Board of NRW. This responded directly to public concern about sewage pollution and the actions agreed at the First Minister's Phosphate Summit in July 2022.

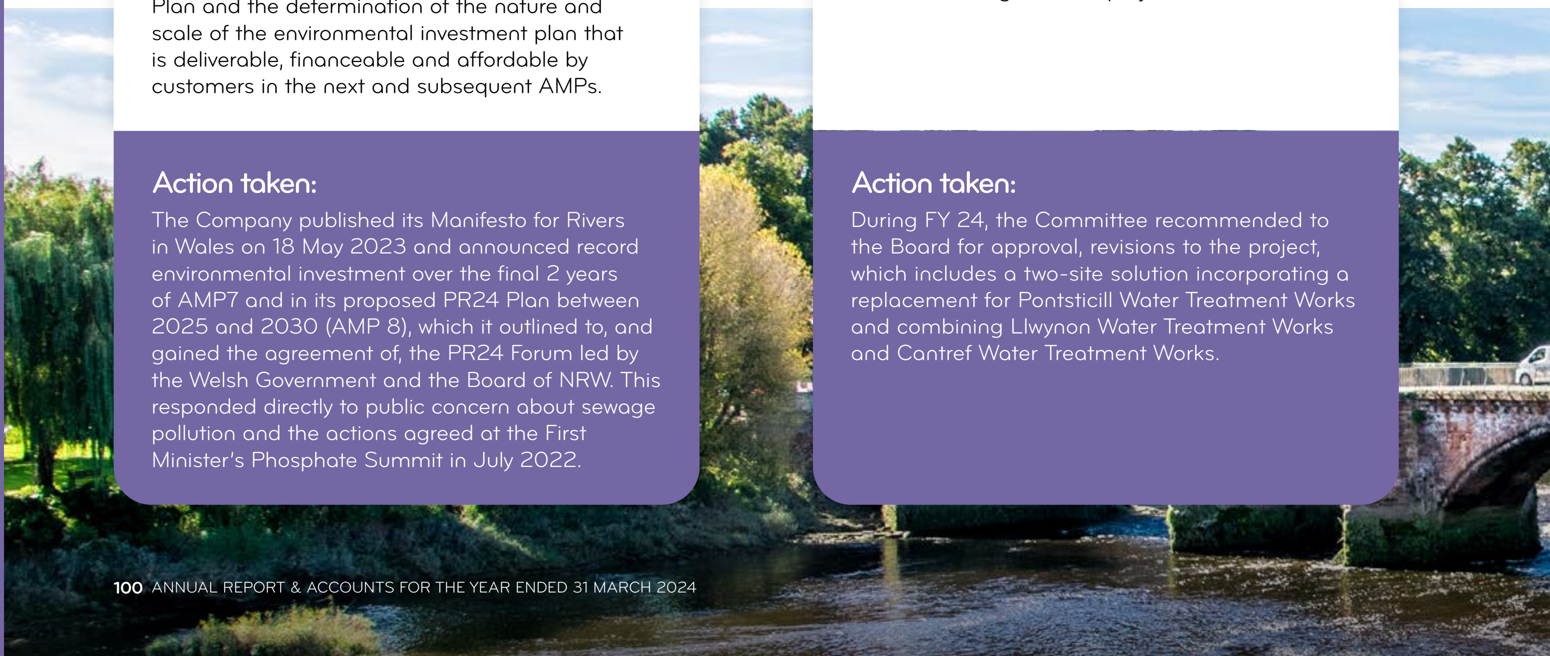
DPC Project Committee

Progress made

The Committee met to oversee progress with the development of the Cwm Taf Water Treatment Works in Merthyr Tydfil, which is being undertaken under Ofwat's Direct Procurement for Customers (DPC) delivery model for competitively tendering services, to ensure best value for customers. The purpose of the Committee is to ensure that the Board can provide the required assurance to Ofwat that the DPC process has been followed at the various stages of the project.

Action taken:

During FY 24, the Committee recommended to the Board for approval, revisions to the project, which includes a two-site solution incorporating a replacement for Pontsticill Water Treatment Works and combining Llwynon Water Treatment Works and Cantref Water Treatment Works.



Board diversity

Progress made

The Board achieved its commitment to the targets it had set in its Diversity Policy, which included having at least 33% female representation on the Board, which it has maintained, and a target to appoint one Board Member from an ethnic minority background by the end of 2025.

Action taken:

The Nomination Committee's activities are set out on page 115.

Technology Committee

Progress made

The Committee monitored performance against the Group's strategic and operational technological objectives and developed substantial assurance that the Group's operational technological policies and procedures are of sufficient maturity to enable the Committee to recalibrate its focus on the contribution of technology to the achievement of the Group's key strategic initiatives. As a consequence, it has reduced the number of Committee meetings from 4 to 3 meetings per annum for FY 25.

Action taken:

A full report of the Committee's activities is set out on page 126.

Preparation for PR24

Progress made

The Board progressively considered, and input into, each of the elements of the PR24 plan (submitted to Ofwat in October 2023) receiving papers on the investment plan, financial plan, business plan, long-term delivery strategy, base expenditure and comparative efficiency, performance commitments, and engagement with stakeholders and customers.

Action taken:

Having discussed with management each material element of the PR24 plan, the Board developed a comprehensive understanding of the challenges facing the Company over 2025–30 and the plan being prepared by management to deliver against the Company's objectives and regulatory requirements. Input from the Board has been reflected in subsequent iterations of the elements of the plan.

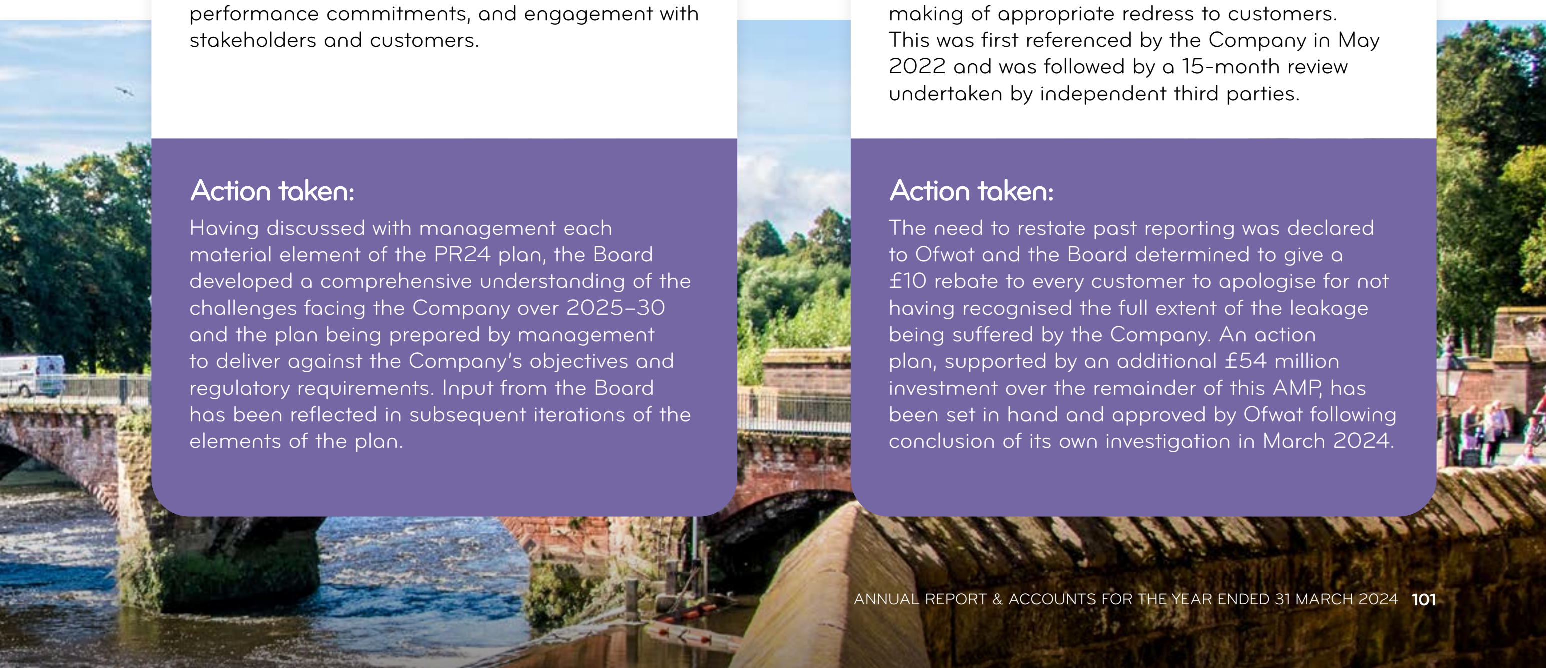
Leakage restatement

Progress made

The Board, through a purpose-formed task-and-finish Committee, maintained detailed oversight over the investigation into the inaccurate reporting of the Company's leakage data for FY 21 and FY 22, the related need to restate the reporting of per capita consumption, and the making of appropriate redress to customers. This was first referenced by the Company in May 2022 and was followed by a 15-month review undertaken by independent third parties.

Action taken:

The need to restate past reporting was declared to Ofwat and the Board determined to give a £10 rebate to every customer to apologise for not having recognised the full extent of the leakage being suffered by the Company. An action plan, supported by an additional £54 million investment over the remainder of this AMP, has been set in hand and approved by Ofwat following conclusion of its own investigation in March 2024.



BOARD OF DIRECTORS

Alastair Lyons CBE

Chair of the Board

D E F L N Q R T

Appointed: May 2016

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 Chair of the Nomination Committee, the DPC Committee and the Leakage and Per Capita Consumption Committee.

Skills and experience

A chartered accountant by profession, Alastair has over 20 years' experience as Non-Executive Chair of listed and private companies. During an extensive executive career in financial services, he was Chief Executive Officer of 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 the Department for Work & Pensions and the Department of Transport.

Other experience

Chair of the Admiral Group, the direct motor insurer, from 2000 to 2017, and subsequently of AECS, Admiral's European holding company, until 2021. 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.

External appointments

Chair of Harworth Group plc and Vitality UK.

Peter Perry

Chief Executive Officer

D E F L N Q T

Appointed: August 2006

Responsibilities

Peter was appointed Chief Executive Officer in April 2020. His role is to manage the Group's business effectively, within the strategies set by the Board.

Skills and experience

Peter was previously the Managing Director of Dŵr 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 experience

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

External appointments

President of the Institute of Water. Chair of the Wales Leadership Board and Member of the Community Leadership Board of Business in the Community Cymru. Member of the Water UK Board and adviser on the UK Resilience Forum.

Mike Davis

Chief Financial Officer

A D E F L Q

Appointed: January 2020

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 experience

From 2010 to 2014, Mike was a Non-Executive Director of RCT Homes, a registered social landlord, chairing its Asset Management Committee and Treasury Committee. He was previously a Director of UK Water Industry Research.

External appointments

Non-Executive Director of Wales & West Utilities.

KEY

- (A) Audit Committee
- (D) DPC formerly Cwm Taf Project Committee
- (E) ESG Committee
- (F) Finance Committee
- (L) Leakage Oversight Committee
- (N) Nomination Committee
- (Q) Quality and Safety Committee
- (R) Remuneration Committee
- (T) Technology Committee
- Committee Chair

Debra Bowen Rees

Non-Executive Director

A D E Q R

Appointed: January 2020

Responsibilities

See summary on page 112.

Debra is Chair of the Environment, Social and Governance Committee. She also represents the Board on the Independent Member Selection Panel, which recommends to the Board the appointment of Glas Members.

Skills and experience

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

Other experience

Chair of the South West Wales Branch of the Institute of Directors. Trustee and Board Member of Hijinx Theatre Company.

External appointments

Non-Executive Director of the Port of Milford Haven, Airport Coordination Ltd and ACL International Coordination Limited.

Professor Tom Crick MBE

Non-Executive Director

Q R T

Appointed: October 2017

Responsibilities

See summary on page 112.

Tom is Chair of the Technology Committee.

Skills and experience

Tom is Professor of Digital Policy and Deputy Pro-Vice-Chancellor of Swansea University and brings with him a wealth of interdisciplinary experience as a computer scientist. His work sits at the interface of research, policy and practice, identifying and addressing domain problems with broad digital, data-driven and computational themes, and especially focusing on the impact on people, communities, heritage and culture. He leads Swansea University's civic mission strategy, is a leading international figure in the digital skills agenda, and has held senior advisory roles with Nesta, Ofcom, the National Infrastructure Commission for Wales, and BCS, the Chartered Institute for IT. In November 2023, Tom was appointed Chief Scientific Adviser (CSA) at the Department for Culture, Media and Sport (DCMS) where he provides scientific and technical leadership within the department, provides direct advice to ministers and officials, and oversee the use of research, evidence and external expertise. He sits on the Ofcom Advisory Committee for Wales and the DCMS College of Experts. Tom is a Chartered Engineer, Chartered Scientist and Fellow of the Learned Society of Wales. He was appointed an MBE in the 2017 Queen's Birthday Honours for services to computer science.

Other experience

Commissioner of the National Infrastructure Commission for Wales. Vice-President of BCS.

External appointments

Chief Scientific Adviser (CSA) at the Department for Culture, Media and Sport (DCMS). Independent Member of Swansea Bay University Health Board. Non-Executive Director of Sector Development Wales Partnership Ltd. (a Welsh Government body known as Industry Wales). Member of the Ofcom Advisory Committee for Wales.

Barbara Moorhouse

Non-Executive Director

Q T

Appointed: January 2023

Responsibilities

See summary on page 112.

Barbara Chairs the Quality and Safety Committee.

Skills and experience

Barbara is an experienced Chair, Committee Chair and Non-Executive Director, holding appointments across a range of business sectors. She spent most of her Executive career in strategic, commercial and finance roles within listed companies, including as Chief Finance Officer for two international listed software companies (Kewill Systems plc and Scala Business Solutions NV), Group Finance Director of Morgan Sindall plc, and Regulatory Director of South West Water plc. Barbara has also worked within the public sector as Director General of the Ministry of Justice, Director General of the Department for Transport, and Chief Operating Officer of Westminster City Council.

Other past experience

Chair of the Rail Safety and Standards Board. NED and Chair of Remuneration Committee at IDOX plc. Trustee and Chair of the Audit Committee at Guy's and St Thomas' Charity. Senior Independent Director and Chair of the Audit Committee at Medica Group plc.

External appointments

Chair of Agility Trains Group, an infrastructure fund-owned train services company. Senior Independent Director and Chair of the Remuneration Committee at Aptitude Software Group plc. Non-Executive Director (NED) at Balfour Beatty plc.

BOARD OF DIRECTORS
CONTINUED

Jane Hanson CBE
Non-Executive Director

A D E F L Q

Appointed: January 2021

Responsibilities
See summary on page 112.

Jane is Chair of the Audit Committee and the Finance Committee.

Skills and experience
A qualified Chartered Accountant, Jane has over 20 years of Non-Executive Director experience on private, listed, public sector and charity Boards in both Audit and Risk Committee Chair and Board Chair roles. Her executive career included extensive experience of Strategic Development, Enterprise Risk Management, Corporate Governance and Internal Control frameworks in blue-chip, heavily regulated entities including Aviva plc. She also has wide experience of developing and monitoring customer and conduct risk frameworks and overseeing large and complex IT and transformation programmes. Jane was awarded a CBE in 2023 for services to charity having served as Chair of the Reclaim Fund for over 10 years, making available over £2 billion of Financial Sector assets to charitable causes, and Honorary Treasurer of the Disasters Emergency Committee. She is also a magistrate.

Other experience
Chair of the Reclaim Fund Ltd and the UK Government's Dormant Asset Expansion Board, Non-Executive Director at Rothesay Life plc, Direct Line Group plc (Chair of Group Board 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. Honorary Treasurer at the Disasters Emergency Committee.

External appointments
Jane is a Non-Executive Director of HM Treasury, Audit Committee Chair at the Civil Aviation Authority, Independent Advisor and Audit and Risk Committee member of John Lewis Partnership and Chair of the Board of Trustees of the Bardi Symphony Orchestra.

Joanne Kenrick
Non-Executive Director
Senior Independent Director

A N Q R T

Appointed: November 2015

Responsibilities
See summary on page 112.

Joanne was appointed Senior Independent Director in July 2023. She is Chair of the Remuneration Committee.

Skills and experience
Joanne was Marketing Director of Homebase until the end of 2015. Prior to that, she was Chief Executive Officer 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 of B&Q, Marketing Director of the National Lottery, and Group Sales and Marketing Director of Wilson Connolly. She has also worked for Woolworths, Asda, Pepsico and Masterfoods. Joanne has a degree in Law from Nottingham University, and while at college she was one of the first women trained by the RAF to fly.

Other experience
Non-Executive Director at Safestore Holdings plc, Principality Building Society and BACS Payment Services Limited. Chair of the Current Account Switch, Cash ISA Switch, and PayM Mobile Payments Services for Pay. Uk and Chair of trustees of the charity, Make Some Noise.

External appointments
Senior Independent Director, Deputy Chair and Chair of the Remuneration Committee at Coventry Building Society. Non-Executive Director and Chair of the Remuneration Committee of Sirius Real Estate. Non-Executive Director and Consumer Duty champion for Vitality Health and Life Insurance.

Lila Thompson
Non-Executive Director

E Q

Appointed: September 2022

Responsibilities
See summary on page 112.

Skills and experience
Lila has over 20 years of experience driving business growth, policy development and stakeholder engagement across industry sectors including healthcare and the environment. She currently leads the UK's largest supply chain membership organisation and challenge-led, independent, thought leadership water industry forum as Chief Executive Officer of British Water. Prior to her tenure as CEO, Lila was responsible for advising multi-nationals on international opportunities and advising the UK Government on trade policy.

Other experience
Trustee of St Christopher's Hospice.

External appointments
Trustee of the Chartered Institution of Water & Environmental Management (CIWEM). Member of the Board of Spring, the innovation centre of excellence for the water sector.

KEY

- A Audit Committee
- D DPC formerly Cwm Taf Project Committee
- E ESG Committee
- F Finance Committee
- L Leakage Oversight Committee
- N Nomination Committee
- Q Quality and Safety Committee
- R Remuneration Committee
- T Technology Committee
- ● Committee Chair

Graham Edwards OBE

Non-Executive Director
Senior Independent Director

C N Q

Term: October 2013–July 2023

Responsibilities

Graham was appointed Senior Independent Director in July 2020 and was Chair of the Quality and Safety Committee.

Skills and experience

Graham is 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 experience

Chair of CBI Wales and Business in the Community Cymru. Non-Executive Director of the Royal College of Music and Drama. Governor of the University of South Wales.

Current external appointments

Board member of the Energy Networks Association. Non-Executive Director of the Institute of Customer Service.

Graham retired from the Board at the AGM in July 2023, at which time, Joanne Kenrick succeeded Graham as SID, and Barbara Moorhouse took up the role of Chair of the Quality and Safety Committee.

CORPORATE GOVERNANCE REPORT

Sound corporate governance is an essential feature of the decisions we make to generate value for our stakeholders and support our delivery of an essential public service.

Our governance processes are in pursuit of the Company Purpose (set out in full on page 05 of this Annual Report) and are based on transparency and fairness, underpinned by the values of the Group.

The Ofwat Board Leadership, Transparency and Governance Principles include many of the principles and provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code (the Code) to which we are committed to adhere. We, therefore, apply both the Ofwat Principles and the principles and provisions of the UK Corporate Governance Code and can confirm that they have been applied during the financial year.

How we meet the provisions of Ofwat's guidance on Board leadership, transparency and governance

Guidance provisions	How we have complied with the provisions	Further information
Purpose, values and culture	The Board of the Appointee (otherwise referred to as Dŵr 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 reflect 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) to satisfy itself that behaviour throughout the business is aligned with the Company's purpose. 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 01 to 12. The Company Direction and Performance Statement can be found in our Annual Performance Report, which will be available from mid-July 2024 on our website corporate.dwrcymru.com/en/library/annual-performance-reports
Standalone regulated company	Dŵr 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, (the Board) as our sole purpose is the provision of our essential water and waste services for the benefit of our customers. Our Corporate Governance Report sets out in detail the role of the Board and those matters that are delegated to its Committees, all of which report to the Board.	See pages 107 to 114. Although we have a unified Board for the Group and Dŵr Cymru Cyf., we regularly review potential conflicts with Board members and consider any conflicts with reference to the agenda for each meeting.
Board leadership and transparency	The Board's leadership and approach to transparency and governance is designed to engender trust in Dŵr Cymru Cyf. and ensures accountability for its actions. As required, information on the following is 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 corporate.dwrcymru.com/en/about-us/company-structure Dividend Policy (page154). Principal Risks and Uncertainties (pages 56 to 66). Board and Committee membership and meeting attendance (page 99). Executive Pay Policy (pages 132 to 153).
Board structure and effectiveness	A review of the effectiveness of the Board and its Committees is undertaken each year. In every third year, this is conducted by an independent external evaluator.	The conclusions of our 2023–24 internally facilitated Board Effectiveness review can be found on pages 113 and 114.
	Based on the latest internal evaluation undertaken by the Chair of the Board for FY 24, 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.	Biographical details of our Board members, including skills and experience, and Committee memberships (pages 102 to 105).
	The balance of skills and experience, and independence of the Board and its Committees, is kept under review. There is a majority of Non-Executive Directors on the Board and on all of its Committees.	Information about the independence and objectivity of our Directors (page 112).

The following 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:

How we meet the provisions of the UK Corporate Governance Code

Section of the Code

Reporting on the application of principles against the provisions of the 2018 UK Corporate Governance Code (the Code).

1 **Board leadership and Company Purpose**
Read more on pages 107 to 110

2 **Division of responsibilities**
Read more on pages 111 to 112

3 **Board composition, succession and evaluation**
Read more on pages 113 to 117

4 **Audit, risk and internal control**
Read more on pages 118 to 131

5 **Remuneration**
Read more on pages 132 to 153

1 Board leadership and Company Purpose

The Board

The Board is responsible for ensuring that the Group delivers on its Purpose for the benefit of its customers and the communities it serves, having regard to the interests of all its stakeholders, and is the principal decision-making forum of the Group. It is intent on providing inspirational leadership, both directly and through its Committees, and delegating authority, as appropriate, to the Dŵr Cymru Executive team (the DCE). 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 enables the delivery of its agreed medium and long-term objectives. Through the effective governance framework that it has in place, the Board seeks to ensure 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 met, and that the Group operates within appropriately established risk parameters.

The Board is mindful of its role as custodian of a long-term business, with, therefore, a responsibility to ensure that the next generation receives the assets it needs to deliver the Company's Purpose.

The Board sets the strategy of the Group based on proposals formulated by the DCE 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 Group, in the context of future challenges and changing customer expectations, are set out in our published strategy document, Welsh Water 2050. Alongside this, the ESG Strategy includes 10 key objectives to support the focus on Environmental, Social and Governance issues in the context of Welsh Water 2050. Further details of the Group's planning framework are set out in the Strategic Report on pages 14 to 91.

The Group also made a commitment in 2021 to achieving net zero carbon emissions by 2040 and to be 35% energy self-sufficient by 2025. To see how we are currently achieving our Net Zero Carbon Strategy, see ESG Objective 2 on page 78. The Group will keep it's Journey to Net Zero under review during FY 25.

Board engagement with employees

Employee engagement sessions

During FY 23, employee engagement sessions were held by Non-Executive Directors with Employee Engagement Champions at which a range of topics were discussed, including the impact of extreme weather events for operational teams; the cost-of-living crisis; the implementation and impact of hybrid working; public and social media focus on the water sector; PR24; and the role of the Remuneration Committee and senior colleague pay. The DCE also held engagement sessions with colleagues, which discussed a variety of topics including hybrid working, communication and collaboration, career aspirations and personal development, and the negotiations with trade unions about the cost-of-living award to colleagues. Alongside the informal meetings held with managers (see below), the Board believes this is the most effective method for engagement as against the 3 more formal methods suggested by the Code for workforce engagement.

Informal meetings with managers

During the year, informal meetings took place between Non-Executive Directors and managers drawn from across the business to discuss operational activity and the challenges facing the business, and to thank them for their efforts. The Chair and Non-Executive Directors also attended site visits across the Company's operations together with lunches and dinners with colleagues organised around these visits.

CORPORATE GOVERNANCE REPORT
CONTINUED

1 Board leadership and Company Purpose – continued

Key activities of the Board during FY 24

Topic	Key activities and discussions FY 24	Key achievement	Key priorities FY 25
Strategy and management	PR24 planning	• Consultation with stakeholders and engagement with Welsh Government and regulators via the PR24 Wales Forum to develop PR24 plans	• Assessing the implications of Ofwat's Draft and Final Determinations and ensuring that the Group is ready and able to implement approved PR24 plans
	Welsh Water 2050	• Ensuring the plan for PR24 addressed the strategic responses set out in Welsh Water 2050	• Continue to test the alignment of our plans for PR24 and the subsequent Long-Term Delivery Strategy against the objectives of Welsh Water 2050 and the delivery of the strategic responses set out there
	Review of Operating Performance against Business Plan targets and regulatory requirements	• Focused on the main operational challenges facing the Company and the appropriateness and adequacy of proposed management responses	• Focus on those areas where operating performance falls short of regulatory targets and Company objectives, measuring the effectiveness of the improvement plans developed by management
	Water Resources	• Approved the Revised Water Resource Management Plan 2024 following further engagement with stakeholders • Oversaw the investigation into the misreporting of leakage and per capita consumption for FY 21 and FY 22 and agreed the quantum and process of redress for customers and the Undertakings the Company gave to Ofwat following publication of its report into the issue	• Review and monitor delivery of Per Capita Consumption and Leakage recovery plans and targets • Oversee the Water Resources performance improvement plan in order to deliver against the Service Commitment Plan agreed with Ofwat
	Environmental performance	• Reviewed updated National Environmental Programme targets and the implications that these had for the nature, scale, and prioritisation of PR24 plans • Approved the Group's Estate Management Strategy • Reviewed and approved the Group's Drainage and Wastewater Management Plan	• Oversee the Company's prioritisation of investment in wastewater assets on the basis of contribution to reducing harm to the environment • Review the effectiveness of the Company's programme to improve its Environmental Performance Assessment and deliver against the Environmental Service Commitment Plan agreed with Ofwat • Review progress achieved in implementing the Group's Estate Management Strategy
	Direct Procurement for Customers Committee (Formerly the Cwm Taf Project Committee)	• The DPC Committee has overseen the governance and progress of the project to construct a new major water treatment works serving South Wales	• The Committee will continue to monitor the progress of the project through key procurement and funding stages and will make recommendations to the Board for approvals based on the provision of required assurances

Topic	Key activities and discussions FY 24	Key achievement	Key priorities FY 25
Strategy and management continued	Customer charges for 2023–24	• Board approved a structure of charges for FY 24 that sought to minimise the level of charge increases resulting from the high level of general inflation. The Board also reviewed the provision of financial support for customers struggling to pay their bills	• Monitor impact on customer ability to pay following increased charges and the wider cost-of-living context, when considering the appropriate level of charges for FY 25
	IT, Cyber and Technology Infrastructure	• The Technology Committee has overseen the governance and progress of the business' journey to Cloud solutions • Oversight of the Group's cyber security capability and consideration of existing and emerging cyber threats was maintained by the Technology Committee	• To monitor full migration to the Cloud and ensure that full network and security capability remains in place • To keep under review emerging cyber security threats and review the risk this presents to the Group
Risk management and internal controls	• Reviewed the Enterprise Risk Management Framework • Reviewed Strategic and Emerging risks on a 6-monthly basis • Oversaw the investigation into the reporting of leakage and per capita consumption following the misreporting issue identified in FY 22	• Approval of the new Enterprise Risk Management Framework • Board constructively challenged the DCE assessment of strategic and emerging risks • Concluded Ofwat's investigation into the misreporting of leakage and PCC, and developed agreed plans for rectification including the payment of appropriate redress to customers	• Monitoring the Enterprise Risk Management Framework across the business • Risk reporting to the Board on strategic and emerging risks, led by the Chief Risk Officer • Maintaining oversight over the delivery of the Undertakings given to Ofwat following their investigation into the misreporting of leakage and PCC data
Financial reporting and controls	• Accounting policies and half-year and year-end Financial Reports reviewed at the Audit Committee • Systems of internal control reviewed at the Audit Committee and approved by the Board as part of our year-end reporting to Ofwat (see Annual Performance Report available from mid-July at corporate.dwrcymru.com/en/library/annual-performance-reports)	• Accounting policies and half-year and year-end Financial Reports reviewed with input from the newly appointed external Auditor • Enhancements to year-end Annual Report and Accounts and Annual Performance Report processes reviewed and approved at the Audit Committee	• Accounting policies and Financial Reports will be regularly reviewed with input from the external Auditor on current issues/best practice • Further enhancements to year-end processes to be implemented for the FY 25 year-end reporting to Ofwat (Annual Performance Report) and the Company's statutory financial reporting
Environmental, Social and Governance	• Environmental, Social and Governance Committee reviewed progress towards ESG objectives	• Key performance indicators (which has included 'deep dives') reviewed at each meeting • Monitored progress with TCFD and carbon reporting • Sustainable Fitch ESG rating obtained	• Focus on the key performance indicators that are material to our stakeholders and that measure the Company's progress towards its ESG objectives • Review the Company's progress towards its net zero carbon commitments in the context of the Final Determination for PR24
Board composition and effectiveness	• Nomination Committee reviewed Board composition, succession planning and Committee membership • Internal Board effectiveness review undertaken based on meetings between the Chair and Board attendees	• Changes to Committee membership made • External Board effectiveness review monitored at each Board meeting • Internal Board effectiveness review completed and improvement actions agreed (see pages 113 and 114)	• Board effectiveness review will be via an internally facilitated process in FY 25 • Support the succession planning process for the appointment of a new Chair within FY 25 and new NED and SID within FY 26 • Progress agreed actions arising from the FY 24 internal review of Board effectiveness

CORPORATE GOVERNANCE REPORT
CONTINUED

1 Board leadership and Company Purpose – continued

Board development and education

The Board undertook several development sessions during 2023 and 2024, which considered the Group's Financial Strategy and the development of artificial intelligence capability. In addition, the Board received targeted updates on multi-capital investment appraisal and PR24 Financials, and hosted a Technology dinner attended by business partners from Microsoft.

Operational site visits

- **June 2023 Debra Bowen Rees and Tom Crick**
  Water Services Science – catchment knowledge-sharing visit, Glascoed catchment area.
- **August 2023 – Debra Bowen Rees, Joanne Kenrick, Lila Thompson and Tom Crick**
  Maerdy – Ferndale service reservoir – tank cleaning inspection.
- **October 2023 – Debra Bowen Rees, Joanne Kenrick, Lila Thompson**
  Rotherwas Wastewater Treatment Works and an overview of the river Wye Nutrient Removal Strategy.
- **November 2023 – Barbara Moorhouse, Debra Bowen Rees and Lila Thompson**
  Site visit at Five Fords Wastewater Treatment Works.
- **December 2023 – Alastair Lyons**
  River Dee bathing waters and Storm Overflow visit.

Members and investors in FY 24

In the same way that a listed company would have a dialogue with its shareholders, we maintain a regular dialogue with our Members and bond Investors. We currently have 68 Glas Cymru Members, excluding Board members. Glas Members are selected by an Independent Member Selection Panel (IMSP). Through an annual recruitment process based on open advertising, the aim of the Panel is to maintain a balanced and diverse group of individuals, broadly reflecting the range of our customers' and key stakeholders' interests.

Our Independent Member Selection Panel

Sir Paul Silk (Independent Chair) is joined on the panel by Menna Richards, a former Non-Executive Director, Chris Jones, former CEO, and Debra Bowen Rees, current Non-Executive Director. The Company Secretary manages the Membership, seeks feedback from the IMSP on the format and content of Members' meetings and organises the Member recruitment process and resulting induction process. The IMSP recommends the final list of candidates to the Board for approval. During FY 25, following the retirement of Menna Richards, the IMSP will recruit a replacement panel member from the Group's existing Membership.

Our Membership

During the year, 4 Members stepped down and 10 new Members were appointed following an open recruitment process, which was advertised on social media. Following appointment, new Members were invited to a full day's induction, held at the Llwyn Onn Water Treatment Works and Cilfynydd Waste Treatment Works Education Centre.

Members' meetings held during 2023 and 2024

2023
- Annual General Meeting (July)
- New Members' Induction (November)
- Half-yearly Meeting (December)

2024
- Regional Members Meetings
- Lisvane and Llanishen Reservoirs (January)
- Llys-Y-Fran Reservoir (March)
- Kinmel Park (March)

Meetings and dialogue with Members

The AGM, half-yearly meetings and quarterly workshops are used by the Board to provide our Members with updates on the Group's performance and its progress in delivering against its strategic objectives, to ensure an understanding by Members of the key issues the Company is addressing, and to consider at the AGM the formal resolutions that are the province of the Members.

Feedback from Members, through Members meetings and feedback shared directly with the Company Secretary, is shared with the Board at each Board meeting to ensure that feedback, scrutiny and recommendations are given due consideration within the decision-making activity of the Board.

The Chair, Debra Bowen Rees, as the Non-Executive Director Member of the IMSP, Joanne Kenrick (on matters relating to Remuneration Policy) and the Company Secretary are also available to meet with any Member outside scheduled Member Meetings.

Reports on press coverage are regularly shared with Members via the Company Secretariat. Additional information is provided to Members between meetings, including progress updates on responses to operational events affecting the business, such as extreme weather events, as they arise.

Further information on how we engage with our other key stakeholders is set on pages 54 to 55 in the Strategic Report.

Our investors

We are wholly debt-financed and raising debt at a low cost is a key part of our financial strategy. Our credit ratings are among the strongest in the UK water sector. Our long-term funding 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 commensurate with delivering our strategic objectives. Access to financial markets is key to the delivery of our strategic objectives and we maintain close and open relationships with our bond investors.

Meetings and dialogue with bond investors

The Treasury team ensures our investors are well informed through six-monthly Investor Reports, which are approved by the Board. The Board receives a report following meetings with investors and, where appropriate, considers in its decision making the views expressed by investors on issues affecting the Group. The senior management team arranges an annual Investor Day, usually in July, which the Chair also attends, and the Group Treasurer, CFO and CEO meet with investors as required or when requested. This year's Annual Investor Day is planned to be held on 10 July 2024 and further details of this event will be sent to investors registered on the Group's stakeholder database.

During FY 24, the topics on which the team has engaged with our investors include the Company's performance, in particular our EPA rating, the review of leakage and PCC misreporting, our net zero carbon programme, our ESG rating from Sustainable Fitch (see page 22), and our plans for AMP8 as part of the PR 24 regulatory price review.

2 Division of responsibilities

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. Glas Cymru's Purpose is aimed at ensuring Dŵr Cymru delivers against its strategic objectives, meeting the needs of our customers and communities.

The Board has collective responsibility for:

- Setting the strategy and agreeing the plans developed by DCE to ensure the long-term success of the Group for the benefit of its customers and their communities, having regard to the interests of stakeholders.
- Challenging, encouraging, and monitoring performance of the DCE 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.
- Setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.
- Assessing and monitoring of the Group's corporate culture, values and standards.

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 as and when required but as a minimum 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. Each Board Committee Chair reports back to the Board on the matters discussed, decisions taken, and, where appropriate, makes recommendations to the Board on matters requiring its approval. A description of the work of the Board Committees is set out on page 97.

Minutes of the Board and its Committees are available to all Non-Executive Directors. All Committees are Chaired by an independent Non-Executive Director, and comprise a majority of independent Non-Executive Directors, except the Nomination Committee, the Direct Procurement for Customers Committee, and the Leakage Oversight Committee, which are Chaired by the Chair of the Board.

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 3 years, which may be extended for 2 further 3-year periods, provided the Director remains independent. All Board Members attend the Quality and Safety Committee. 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 the Company's website. See corporate.dwrcymru.com/en/about-us/governance/board-committees.

The DCE

The DCE has responsibility for implementing the strategy agreed by the Board and for the day-to-day management of the business and is led by the Chief Executive Officer and includes the Chief Financial Officer. Its other members are senior managers from across the business. The DCE meets three times per month and it is responsible for the day-to-day running of the business and other operational matters to implement the strategies that the Board has agreed. The Governance Framework diagram on page 97 shows the Board Committees and Management Committees supporting the DCE. The Board receives reports from the CEO, CFO and members of the DCE at every scheduled meeting, providing an update on our financial and operational performance and any current or emerging issues.

Board effectiveness

The performance of the Board and its Committees is reviewed annually (see page 113). The composition of the Board is reviewed, also annually, by the Nomination Committee to confirm an appropriate diversity of background, skills and experience, and as part of Director succession planning. The composition of the Board Committees was reviewed during the year 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 Board members can suggest items for inclusion. At the end of each Board meeting, there is a discussion as to Directors' views of the effectiveness of the meeting and any opportunities for improvement going forward.

CORPORATE GOVERNANCE REPORT
CONTINUED

2 Division of responsibilities – continued

Independence
We consider the independence of our Non-Executive Directors on an ongoing basis and formally on an annual basis. Except for the Chair of the Board, who was deemed to be independent at the time of his appointment, all our Non-Executive Directors are considered to be independent in accordance with the UK Corporate Governance Code and free from any relationship that would compromise their independent judgement. Potential conflicts of interest are considered at the start of each Board and Committee meeting. Directors would recuse themselves from any matter where such a conflict was considered to exist.

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. The Committee also regularly reviews the range and balance of skills and experience on the Board, which are wide-ranging as set out on pages 115 to 117.

External appointments of the Executive Directors
The external appointments held by Peter Perry and Mike Davis are set out in their biographies on page 102.

Membership and attendance at Board and Committee meetings
The Board is scheduled to meet 9 times a year. Additional Board meetings are held, as required, during the year. The table on page 99 shows the actual number of Board and Committee meetings held during FY 24 and the attendance of the Directors at those meetings. Every effort is made by Board members to attend all meetings.

Conflicts of interest
External directorships and other outside business interests are closely monitored, along with the nature and number of external directorships held by the Directors in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Welsh Water. Before appointment of a Director, the appointee is asked to disclose any other interests that may result in a conflict of interest and all Directors are required to report to the Board any future business interests that could result in an actual or perceived conflict of interest. Any proposed new external appointments of an existing Director must be discussed with the Chair of the Board, in the first instance, and submitted to the Nomination Committee for approval.

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 of the Board.
- Stands in as Chair of a meeting in the event the Chair of the Board is not able to attend.
- Acts as an informal sounding board for all members of the Board.

Non-Executive Directors
- Challenge the Executive Directors constructively and monitor delivery of the Board's agreed strategy within the risk and control framework approved by the Board. They are also involved in mentoring and supporting members of the DCE and senior managers across the business.
- Take an active interest in operational issues affecting the business (see site visits on page 110).

Chief Executive Officer
Beyond matters reserved to the Board, the Chief Executive Officer has primary responsibility for leading the management of the Company, with support from the DCE.

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 and unpaid. 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 that will be sustainable for future generations.

Company Secretary
- Supports the Chair of the Board in ensuring the Group operates effective governance and delivers against its statutory and regulatory responsibilities.
- Acts as the primary liaison and point of contact for the Group's Membership, ensuring that Members are kept up to date with emerging issues and sharing Member scrutiny and feedback with the Board and DCE.
- Prepares agendas for Board meetings, which are agreed in consultation with the Chair of the Board and Chief Executive Officer, although any member of the Board may request that an item should be added to the agenda.
- The Company Secretariat is available to support all Non-Executive Directors and the DCE and works to promote good information flows between the Board, DCE and internal committees and management teams within the Group.

3 Board composition, succession and evaluation

Directors' appointment, induction and development

A rigorous and transparent process is followed for the appointment of new Directors to the Board (see page 116).

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 DCE 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.

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

Details of the operational site visits made by our Non-Executive Directors and educational development opportunities for the Board during the year are set out on page 110. Non-Executive Directors are invited to identify topics on which they would benefit from specific training in order to be more effective in their roles.

The final candidate for new Non-Executive Director appointments to the regulated Company Board meets with Ofwat ahead of any appointment being made.

Term and re-election

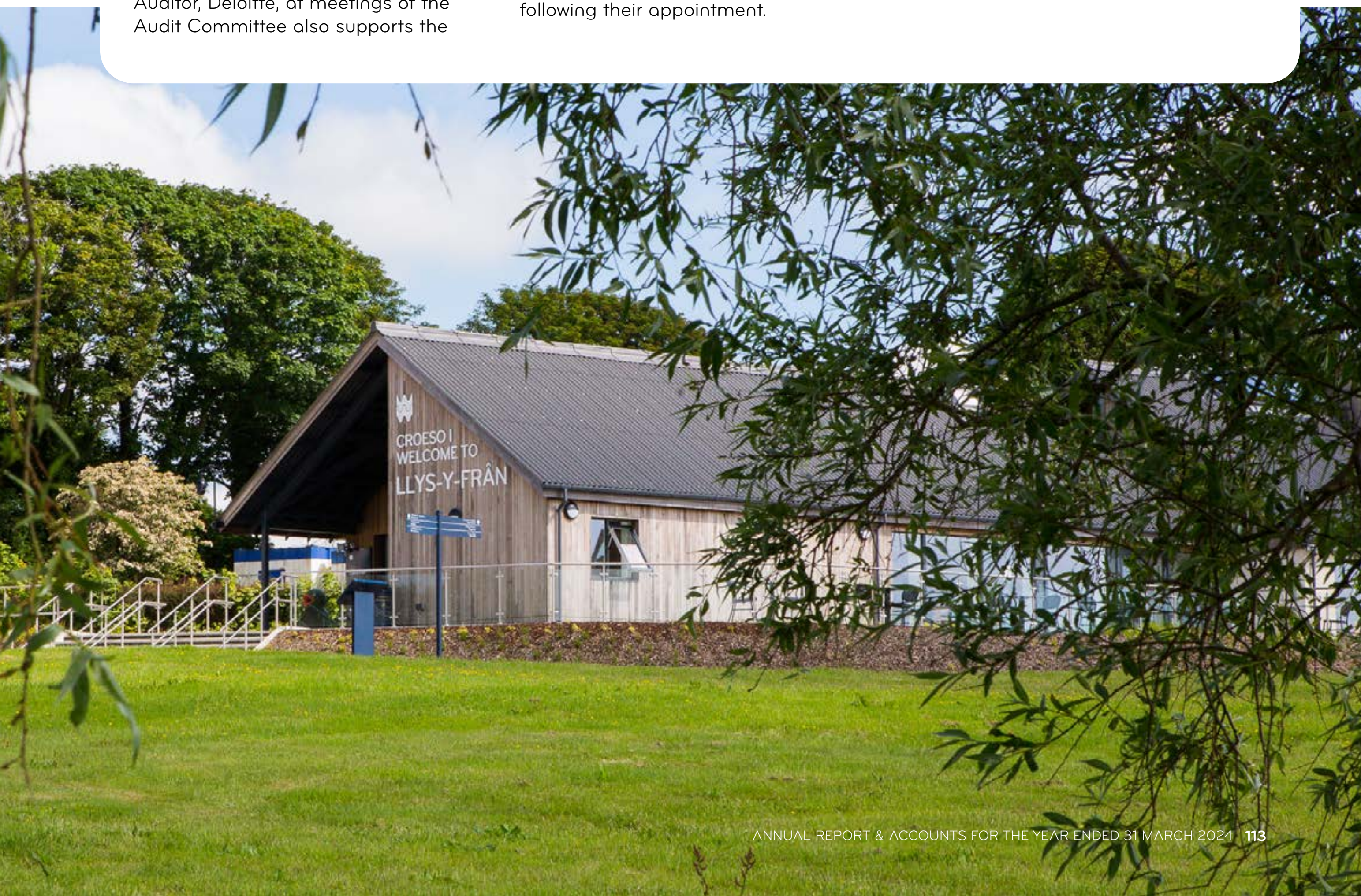
Non-Executive Directors are appointed for a 3-year term, which can be renewed for up to 2 further periods of 3 years. In any event, no Non-Executive Director can serve more than 10 years under the terms of our Articles. In addition, all Directors formally seek re-election by Glas Members every year at the AGM and any Director appointed during the year will seek election at the next AGM following their appointment.

Following completion of 9 years as a Director, Graham Edwards resigned from the Board at the July 2023 AGM. No further resignations from, or appointments to, the Board have taken place during FY 24.

Board evaluation

The Board considers that it, and its Committees, have the appropriate balance of skills, experience, independence, and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively. The Board regularly reviews this through its annual effectiveness review and in discussions with the Company Secretary and Nomination Committee.

During FY 24, the Board conducted an internal effectiveness review, having had an external review carried out by Halex Consulting Limited in FY 23 in accordance with the Code requirement that companies should carry out an externally facilitated evaluation of the Board at least every 3 years.



CORPORATE GOVERNANCE REPORT
CONTINUED

3 Board composition, succession and evaluation – continued

Key recommendations in the FY 24 Board evaluation

Recommendation	Agreed actions for FY 25
Board succession planning and Committee membership	Recognising the retirement of the Chair and SID during FY 25, focus should be placed on the management of succession plans to ensure that the composition, experience, and balance of skills on the Board will be maintained. Management of the transition will be led by the Nomination Committee and will be supported by the re-configuration of Committee membership during 2024 to ensure that appropriate expertise is retained across all Committees of the Board. To understand the particular operational and geographical challenges facing the business, it was considered that experience gained as either an Executive or Non-Executive in an entity with broad multi-site operations, ideally a utility, would be a useful addition when considering further Non-Executive recruitment, in addition to seeking interest from Welsh candidates to increase the number of Welsh Board Members.
Operational oversight	To enable the Board to clearly identify principal operational issues and focus areas, CEO, CFO and Executive updates should clearly draw out areas for concern, future challenges and emerging issues and report on these separately from existing reporting methodologies. This will highlight progress against agreed plans and priorities and enable the Board to more effectively identify trends, analyse implications and debate possible courses of action. Given the focus on improving operational performance, Board oversight would be focused on the same issues and avoid committing management time to other issues. The analysis by the Board of the progressive improvement achieved would be led by QSC and it was agreed all Non-Executives would join QSC for the foreseeable future.
Stakeholder management	There was support for the reassessment by the Executive of the Company's communications strategy to ensure stakeholder understanding of the issues confronting the business, the plans to address them, and the constraints on making faster progress, in particular the need to maintain the balance between investment and customer affordability. Given the importance of our key supplier frameworks to deliver the AMP8 investment programme, it was agreed the Board should increase its interaction at a senior level with principal suppliers.
Board papers and meeting arrangements	It was agreed that positive progress had been made against recommendations made following the FY 23 effectiveness review with the quality of papers and presentations notably improved. During FY 25, a focus will be placed on the importance of Board papers clearly setting out key issues for focus, alternative responses available and management recommendation(s). In addition, recommendations were made to reinforce the importance of identifying authors of papers and accountable Executives to provide assurance to the Board that appropriate review had taken place prior to papers being submitted for review and approval.
Committee effectiveness	It was recognised that the Board Committees continued to operate effectively albeit specific areas for improvement were noted. Acknowledging the vast breadth of Environmental, Social and Governance (ESG) strategic objectives and their supporting KPIs, alongside the plethora of oversight and consultative bodies and emerging reporting requirements, it was recommended that the ESG Committee place a focus on the prioritisation of areas that would provide the greatest contribution to achieving key strategic objectives. Collaboration between the Audit and Technology Committees was encouraged to avoid duplication between the work of the two Committees in the review and oversight of technology risks and the effectiveness of the IT control frameworks.
Continuous improvement	Recognising the importance of continuous feedback and challenge, and the role this plays in the development and maintenance of an effective Board, it was agreed that consideration would be given to the frequency and timing of feedback at each meeting of the Board. It was also agreed that a review of NED training needs would be undertaken at the start of each financial year.

Overall, the review concluded that the Board continues to operate effectively. The dynamics of the Board are of a collegiate nature with a good balance of experience and members who work well together and are keen to promote the success of the Group. 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. The performance of the Chair was reviewed by the Board (without the Chair present) and led by the Senior Independent Director (SID) in March 2024. The SID considered and discussed with the Chair of the Board the comments and feedback received from the Directors 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 as required to the Non-Executive Directors.

Nomination Committee report

Alastair Lyons CBE

Chair of the Nomination Committee

Other members:

- Graham Edwards (until July 2023)
- Peter Perry
- Joanne Kenrick
- Debra Bowen Rees (from July 2023)

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 would chair the meeting.

Meetings held: 4

Focus areas looking ahead to 2024–25:

- Commencing the appointment process for a successor to the Chair of the Board in 2024, to be led by the Senior Independent Director, and continuing to develop the strategy to ensure a phased succession of the principal Board roles. After a rigorous selection process, Saxon Bampfylde has been appointed to support the appointment process for a successor to the Chair of the Board.
- Maintaining the appropriate balance of skills, knowledge, experience and independence on the Board through Board succession planning and agreed outcomes from the annual Board effectiveness review.
- Reviewing the current membership of Committees taking into consideration succession issues.

The responsibilities of the Committee are to:

- Ensure the Board has the necessary skills, background, and experience to enable the Group to meet its current and future strategic objectives;
- 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 Committees;
- Ensure that there is a formal, rigorous and transparent procedure for appointments to the Board;
- Maintain oversight over the succession plans developed by the Chief Executive for the DCE; and
- 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, and on issues relating to gender and ethnicity pay equality.

The Committee has applied the Principles and complied with the Provisions of the UK Code of Corporate Governance relating to Nomination Committees.

The Committee Terms of Reference (corporate.dwrcymru.com/en/library/terms-of-reference) set out 5 responsibilities that the Committee undertakes on behalf of the Company and its subsidiaries, which have informed the agenda and key areas of focus for the Committee during 2023/24.

Priorities	Committee activity and outcome
Board composition and balance	The Committee considered and commented on the Non-Executive Director skills, knowledge, experience, independence and diversity. During the year, the Committee has considered Director Commitments and terms of appointment to inform Board succession planning.
Ensuring diversity of thinking and approach from Board members	The Committee has considered the Group's diversity and inclusivity objectives when undertaking its recruitment processes and has maintained at least 33% female representation on the Board and appointed at least one Non-Executive Director from an ethnic minority background to the Board.
Board Committee membership	On joining the Board, Non-Executive Directors spend 12 months as a Member of the Quality and Safety Committee (QSC) in order to ensure they have a good understanding of operational issues and challenges. The Committee reviewed wider Committee membership at its November meeting and was satisfied that Board Committees retained the right mix of skills and experience, as well as the capability to provide effective challenge and promote diversity. From February 2024, the Board agreed that all Members of the Board would attend the QSC.
Succession planning	The Committee has reviewed succession plans for the Board and Dŵr Cymru Executive team during 2023–24. This included discussing the timing for commencing the appointment process for a successor to the Chair of the Board in 2024 and the Senior Independent Director in 2025.
Governance and Board and Committee effectiveness	The Committee conducted an annual review of its effectiveness against its own Terms of Reference and concluded that the Committee has discharged its duties during FY 24 and that no amendments were required to its Terms of Reference. The Committee reviewed the list of Directors appointed to Group subsidiary companies and was satisfied that appropriate arrangements continued to be in place across the Group.

CORPORATE GOVERNANCE REPORT
CONTINUED

Nomination Committee report – continued

Board appointment process

The Committee leads the process for making appointments to the Board. The Committee is satisfied that the process constitutes a formal, rigorous and transparent process for the appointment of new Directors to the Board, which meets the Group's diversity and inclusion objectives, as well as supporting orderly succession.

Succession planning

The Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. It maintains oversight of the succession plans developed by the Chief Executive, and the Board reviews the succession plans of the Dŵr Cymru Executive (DCE) team, with an annual update from the Business Support and People Director.

Equality, diversity and inclusivity (ED&I)

As part of the annual effectiveness review of the Board and Board Committees, the Board considers the balance of skills, knowledge, experience, independence and diversity representation as reviewed by the Committee. The Board is alert to opportunities to improve the current level of diversity regarding skills, experience, backgrounds, race, gender and personal attributes of Board Members. The Committee reports on its progress in implementing the Board Diversity Policy and monitoring the diversity of the Board, and on the Group's gender diversity ratios in its Annual Report. It also reports on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are representative of the communities that we serve, in accordance with the Group's policies supporting the development of equality, diversity and inclusivity across the business.

In the opinion of the Committee, the Board currently benefits from an appropriately diverse range of skills, knowledge and experience. The Directors' biographies on pages 102 to 105 set out details of their backgrounds, skills and experience, which, for the Board taken as a whole, are diverse and wide-ranging.

At the end of FY 24, 56% of our Board members (FY 22–23: 50%) and 26% of the DCE (FY 22–23: 33%) are female, while in the wider workforce, of those senior managers reporting directly to a member of the DCE 45% (FY 22–23: 38%) are female.

We continue to support the recommendations of the Hampton-Alexander Review, which encouraged companies to increase the percentage of members of boards and in leadership teams (comprising the DCE and direct reports of the DCE) who are women to 33% by 2020, which has been achieved. We are encouraged that we have been able to continue to meet this target and we will continue our focus to maintain this.

We support the recommendations of the Parker Review, which encourages companies to increase the ethnicity on boards and we currently meet the voluntary target set by the Parker Review of having at least one Director from an ethnic minority background by 2024.

Although we are not a listed company, we comply with the UK Listing Rules to meet specific Board diversity targets on a 'comply or explain' basis. The targets are:

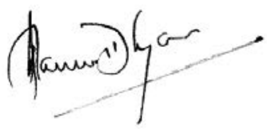
- At least 40% of the Board are women (56% for FY 24)
- At least one of the senior Board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman
- At least one member of the Board is from a minority ethnic background

Following the conclusion of our AGM in July 2023, when Joanne Kenrick succeed Graham Edwards as Senior Independent Director, we have been able to confirm compliance with the UK Listing Rules and will continue to ensure that the Board is appropriately balanced in all respects and take into account the Listing Rules Board diversity targets as part of our future succession plans for senior Board roles.

We also know that we can further improve diversity and inclusion across the Company and neither the Committee nor the Board is complacent about these issues. The Group is committed to eliminating discrimination and encouraging diversity and inclusivity to enable us to recruit and retain a diverse workforce.

Our Board diversity statement can be accessed via corporate.dwrcymru.com/en/library/company-statements/board-diversity-statement on our website.

Diversity policy objectives	Actions	Progress
The Committee, to consider true diversity of thought considering the full range of skills, knowledge, experience, backgrounds and characteristics of Board members, will regularly review Board composition, succession planning, talent development and the broader aspects of diversity.	A diverse Board will include and make use of differences in skills, regional and industry experience, background and race, gender and personal attributes, such as intellect, critical assessment and judgement, courage, openness, honesty and tact, and the ability to listen, forge relationships and develop trust.	The Committee is balancing the consideration of these characteristics, bearing in mind also that all Board appointments are made on merit, in the context of the skills and experience the Board requires in order to be effective. These factors are considered in progressing the recruitment of Non-Executive Directors.
The Committee will work with recruitment consultancy firms who understand the Group's values and approach to diversity and will identify and propose suitable candidates.	The Committee will work with a recruitment consultancy firm, following a best value selection process. The firm will be a signatory to the Standard Voluntary Code of Conduct for executive search firms and be committed to adhering to those standards.	The Committee will continue to engage with an appropriate recruitment consultancy firm which meets these criteria during its recruitment process.
The Committee will report annually, in the corporate governance section of the Annual Report, on the process it has used in relation to Board appointments, its progress in maintaining or improving the diversity of the Board and on gender diversity ratios.	See pages 115 and 116.	This report evidences the work of the Committee on the process for appointments, progress in maintaining or improving the diversity of the Board and on gender diversity and inclusivity. By reviewing progress each year, the Committee maintains oversight of the implementation of policies to improve diversity and inclusivity across the business. The review of the Gender Pay Gap Report also includes a discussion about the actions planned to further reduce the gap.
The Committee will also report 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 Environment, Social and Governance Committee received an update on attracting and retaining a diverse workforce to reflect our communities in March 2024.	The Company has worked hard to collect personal data on protected characteristics. Reporting of ethnicity data has been maintained at 80% and the Board continues to support the programme of ED&I activities held for the wider business.
Review its Diversity Policy annually and recommend any amendments to the Board.	A review and update of the Company's Equality, Diversity and Inclusivity Policy was undertaken in August 2023.	The Company will continue to undertake annual reviews of the Company's ED&I Policy and strategy.



Alastair Lyons
Chair of the Nomination Committee

6 June 2024

See page 99 for Board and Committee meeting attendance

CORPORATE GOVERNANCE REPORT
CONTINUED

4 Audit, risk and internal control

Barbara Moorhouse (from July 2023)

Quality and Safety Committee report

Other members:

- Debra Bowen Rees
- Tom Crick
- Mike Davis
- Jane Hanson
- Joanne Kenrick
- Alastair Lyons
- Lila Thompson
- Peter Perry
- Graham Edwards OBE (Chair until July 2023)

Independent consultants:

- David Elliott (Expertise in the Environment and Wastewater performance)
- Milo Purcell (Expertise in Water and Public Health)

Meetings held: 7

See page 99 for Board and Committee meeting attendance

Graham Edwards OBE stood down as Non-Executive Director, Senior Independent Director, and Chair of the Quality and Safety Committee (QSC), at the Annual General Meeting on 7 July 2023 having sat as Chair of the QSC at the Committee's May and June meetings. Barbara Moorhouse succeeded Graham as Chair of the QSC with effect from the date of the Annual General Meeting. From February 2024, it was agreed that all Board Members would attend the QSC.

Quality and Safety Committee report

Principal responsibilities

On behalf of the Board, the Committee operates as the primary forum for monitoring the operational performance of the Group 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:

- challenges the Dŵr Cymru Executive (DCE) to ensure continuous improvement in operational performance and the delivery of the Service Commitment Plan
- reviews the Group's Water and Wastewater operational performance and assesses the appropriateness of Water, Wastewater and Environmental strategies;
- monitors the evolving landscape of environmental, regulatory and governmental priorities and emerging areas of concern and the impact these may have on regulatory standards and operational and investment plans.
- assesses annual reports, including, but not limited to, the Annual Dam Safety Report, Water Resources Management Plan 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;
- oversees the Group's compliance with its public health responsibilities and obligations to provide safe, clean drinking water and wastewater sanitation in line with all relevant standards;
- reviews the adequacy of the Group's emergency and security arrangements and receives assurance that these are in line with relevant statutory guidance such as Critical National Infrastructure (CNI), Protective Security Strategy and the Security and Emergency Measures Directive (SEMD) requirements;
- reviews and agrees the Group'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 Serious Incident Reviews (SIRs) of any water quality, environmental, safety or customer service failure. SIRs are led by the Group's Chief Executive Officer to identify root cause(s) and any wider implications of the incident and agree action plans to address any ongoing issues;

Activities during the year

During FY 24 the Committee's activities 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 (including 6-monthly reviews of emergent environmental regulatory risk and a review of risks linked to the most commonly used chemicals within water treatment processes to establish adherence to BS:EN standards) and mitigation plans;
- strategies for key areas of business focus including, but not limited to,
  - Pollution Prevention Strategy
  - Wastewater Treatment Works Compliance Strategy (including flow and EDM)
  - Leakage Strategy
  - Flooding Strategy
  - Sludge Strategy
  - Customer Minutes Lost
  - Micropollutants
  - Catchment Management
  - Poly and perfluoroalkyl substances (PFAS) strategy
  - Cryptosporidium Prevention Strategy
- the strategy for compliance with Regulations 26 (water treatment and disinfection), 27/28 (Risk Assessment) and 29/30 (ontamination from Pipes) of the Water Supply (Water Quality) Regulations 2016 including Drinking Water Safety Plan risk updates;

- 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 in accordance with best practice published in the 'Guide to Risk Assessment for Reservoirs Safety Management' produced by Defra and the Environment Agency;
- updates on the work of the Group's Independent Environmental Advisory Panel;
- Annual Bathing Water results;
- updated Storm Overflow Classification and Unpermitted Storm Overflow Guidance; and
- the Committee's Terms of Reference and an effectiveness review as part of the internal annual Board Effectiveness Review conducted during the year and reported to the Board in February 2024.

Priorities for 2023/24	Committee activity and outcome
Monitoring Health and Safety	Annual and quarterly Health and Safety Reports were presented by the Director of Health,Safety and Wellbeing, and the Committee also reviewed reports of Health and Safety incidents, near misses and potential risks. The Committee reviewed and challenged the reports and provided updates to the Board after each meeting. The Committee noted the work of the Process Safety Group and its key areas of activity for 2023/24 and approved the Health, Safety and Wellbeing Policy Statement on behalf of the Board.
Hearing directly from our key regulators on their priority areas for the Group	At its June 2023 meeting, the Committee reviewed with NRW the principal factors underlying the Group's Environmental Performance Assessment, in particular the increased number of assessed serious pollution events, noting improvements within water discharge permit compliance and a reduction in pollution incidents from water supply assets. In March 2024, the Committee reviewed the Groups Water Quality Performance with the DWI.
Reviewing in detail the Group's response to severe weather events	The Committee considered Independent Assurance Reports prepared by Jacobs and the Group's Independent Challenge Group following their review of the Group's post-incident review of the December 2022 freeze/thaw event, when the temperatures in West Wales were the equivalent to the Scottish Highlands. The Committee noted that the majority of actions had been identified through internal Post-Incident Review and were in the process of being delivered with action plans in place to address all recommendations. The Committee also reviewed progress with the Group's Project Novello work to re-organise the incident response teams and the Group's tanker fleet to enable more expeditious response times in the event of service interruption across all areas. This programme of work supported delivery of actions identified within freeze/thaw post-incident reviews.
Monitoring operational performance against key performance indicators for drinking water and environmental standards	At every meeting, the Committee receives Monthly Management Reports and reviews Ofwat's Performance Plan including the Service Commitment Plan. Updates are received from the: • Managing Director of Water Services, Asset Planning and Capital Delivery; • Managing Director of Wastewater Services, Business Customers and Energy; and • Regulatory correspondence updates from the Director of Quality, Policy and Compliance. The Committee evaluated the reports and updates received against 'dashboards', which set out areas of improvement related to KPIs identified by the Committee.
Reviewing updates of progress against key operational strategies	The Committee received regular progress updates on operational strategies, including: • Customer Minutes Lost • Water Treatment Works • Iron and Customer Acceptability of Water • Lead (Sections 29/30 (Contamination from Pipes) of the Water Supply (Water Quality) Regulations 2016) • Leakage • Sludge • Pollution • Flooding • Water Fittings Regulations The rate of progress of implementing the operational strategies was considered, short and medium-term priorities were agreed and consideration was given to the need to evolve operational practice to respond to emerging challenges. The Committee received, in September 2023, an update paper on AMP7 Leakage Recovery Plans.

CORPORATE GOVERNANCE REPORT
CONTINUED

Quality and Safety Committee report – continued

Priorities for 2023/24	Committee activity and outcome
Deep dives on technical issues	The Committee spent additional time on 'deep dive' sessions on issues that benefited from a detailed review. During the year, these included: • Water Resource Management Plan (WRMP) 2024 • Environmental Permitting • Catchment Management The update on the WRMP to the Committee took the form of a teach-in of the key components of the Plan with key changes noted, including updating demand forecasts due to a refined metering delivery programme across AMP8 and refined and updated leakage and metering cost models. The Catchment Management (CM) review provided Committee members with an overview of how the CM Strategy will deliver the Welsh Water 2050 ambition Strategic Response 1: Safeguarding Clean Drinking Water Through Catchment Management and acts as the starting point for our source-to-tap risk management process. The Committee also received an internal briefing on updated Storm Overflow Classification Guidance (GN 066) and Unpermitted Storm Overflow Guidance (GN021). The Committee noted ongoing engagement with NRW to work through the practical implementation of both guidance notes.
Continued oversight of the 'pipes in dams' capital projects at a number of our reservoir locations	The Committee recommended the annual report on Dam Safety to the Board for approval noting that the report demonstrated that the Group had met its responsibilities as an undertaker for dams that are registered under the Reservoirs Act 1975 (the Act), as now amended by the Flood and Water Management Act 2010, Schedule 4 (Reservoirs). The annual report noted that 437 'Measures in the interests of safety' (MITIOS) had been due during the year and that all except 3, which had been postponed on safety grounds, had been delivered; good progress had also been made on the 'Pipes in Dams' capital programme and work had now been completed at 19 out of 26 priority dams.
Governance	The Committee reviewed: • Its Terms of Reference • Look back review of Duties • Forward Schedule of agenda items for 2023–24 and plans for 2024–25 The Committee also reviewed the Future Direction of the QSC at its September 2023 meeting and undertook a review of its effectiveness as part of the internal Board evaluation conducted during the year. The Committee's lookback of duties set out within the Terms of Reference concluded that the Committee had discharged its duties during the 2023–24 financial year. The Committee's review of its performance concluded that the Terms of Reference remained appropriate.

Barbara Moorhouse
Chair of the Quality and Safety Committee

6 June 2024

Audit Committee report

Jane Hanson CBE

Chair of the Audit Committee

Other members:

- Debra Bowen Rees
- Joanne Kenrick

Meetings held: 6

See page 99 for Board and Committee meeting attendance

Focus areas looking ahead to FY 25:

- Monitoring the development and implementation of the outputs of the BEIS Consultation: Restoring Trust in Audit and Corporate Governance into the Group's corporate governance frameworks as further government guidance is issued.
- Ensuring that the Group is ready and able to implement changes to the UK Corporate Governance Code for financial years beginning on or after 1 January 2025.
- Overseeing continued progress with the Group's Enterprise Risk Management (ERM) Framework and maturity of the Group's risk function under the leadership of the Chief Risk Officer.
- Overseeing the adoption principles, operating model developments and ongoing management of Task Force on Climate-related Disclosures and other emerging non-financial reporting requirements for FY 25 and beyond. This includes reviewing and approving the methodologies, assumptions, data sources and disclosures used by the Group to measure and report on its climate-related financial risks and opportunities, biodiversity impacts and dependencies, and sustainability performance. The Committee will also monitor the developments and expectations of regulators, investors, and other stakeholders in relation to non-financial reporting and advise the Board accordingly.

The Audit Committee is Chaired by Jane Hanson who has a strong background in finance, corporate governance, audit and risk management and has recent and relevant financial experience. All members of the Committee are independent Non-Executive Directors, and the Board is satisfied that the Committee has sufficient experience of the water sector and of financial matters to perform its duties effectively.

Other regular attendees at meetings of the Audit Committee include the Chief Executive Officer, the Chief Financial Officer, the Finance Director, the Chief Risk Officer, the Chief Internal Auditor, the Group Secretary and representatives from the Group's External Auditor, Deloitte (the External Auditor), who were appointed by the Group at its July 2023 Annual General Meeting, such appointment taking effect from 1 April 2023. The Committee also has unrestricted access to management and external advisers to support the discharge of its duties.

During the year, the Committee held separate private sessions with the Chief Internal Auditor and External Auditor without management present.

Principal responsibilities

On behalf of the Board, the Committee oversees:

- the integrity of the Group's financial statements, including ensuring that the Group provides clear, complete, fair, balanced and understandable financial reports to all stakeholders;
- the appropriateness and effectiveness of internal control systems, including those concerning public interest disclosures (whistleblowing);
- the effectiveness and reliability of the risk management framework;
- the integrity and sustainability of the systems of internal control as reviewed by the Internal Audit and other assurance functions; and
- the effectiveness, performance, objectivity and independence of Internal Audit and the External Auditor.

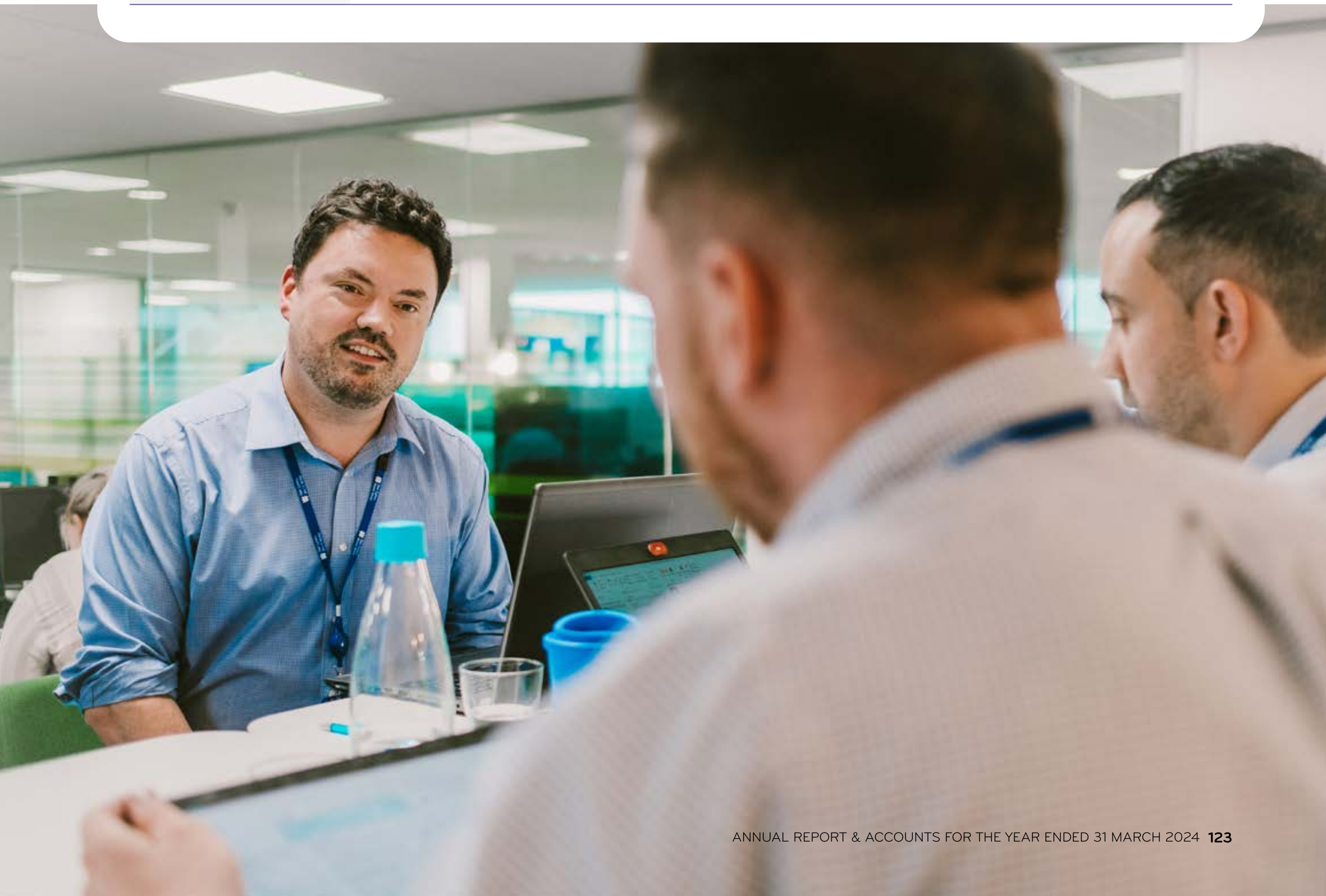
The Committee has an extensive agenda focusing on the audit, risk and assurance processes within the business, which it deals with in conjunction with management, the External Auditor, Internal Audit and the Group Finance and Regulatory Compliance and Assurance teams. The Committee Terms of Reference (corporate.dwrcymru.com/en/library/terms-of-reference set out 10 duties that the Committee undertakes on behalf of the Group and its subsidiaries, which have informed the agenda and key areas of focus for the Committee during FY 24.

CORPORATE GOVERNANCE REPORT
CONTINUED

Audit Committee report – continued

Priorities for FY 24	Committee activity and outcome
Financial reporting	The Committee reviewed financial performance in detail at the half-year and year-end (financial statements), considering significant judgements and estimates and the Group's Going Concern status (further detail shared below) prior to recommending approval of the statements to the Board. The Committee reviewed the draft FY 24 Annual Report and Accounts and advised the Board that the contents represented a fair, balanced and understandable assessment of the Group's performance and financial position.
Going Concern and Viability Statement	The Committee assessed the prospects of the Group over a period of at least 12 months as required by the 'Going Concern' statement on page 173 and noted that there were no material uncertainties to disclose in relation to the Group's ability to continue as a going concern. The Group's FY 24 Long-Term Viability Statement is set out on pages 67 to 71. The Committee agreed the Group Long-Term Viability Assessment (LTVA) approach and recommended the LTVA Statement for approval by the Board at respective meetings of the Committee and Board held in June 2024.
Internal Audit	The Chief Internal Auditor reported regularly on progress against the FY 24 Internal Audit Plan and shared his outline Internal Audit Plan for FY 25 at the Committee's meeting in January 2024. Management responses to unsatisfactory and limited opinion internal audit reports were considered by the Committee and subsequently kept under review to ensure progress was made to remedy control weaknesses. The Chief Internal Auditor regularly presented a Whistleblowing and Special Investigations Report to the Committee, which detailed public interest disclosures made or referred to the internal audit function, and the outcomes and lessons learned from the investigation of such allegations. The internal audit function underwent an External Quality Assessment (EQA), which is required every 5 years and was undertaken by Protiviti in line with the Chartered Institute of Internal Auditors. The EQA concluded that the Internal Audit function 'Generally Conforms' to the Institute of Internal Auditors Standards, which is the highest level of conformance to the Standards available.
Internal control and Risk Management Systems	The Committee maintained oversight of the operation of the Group's systems of internal controls and assurance, including detailed reviews of risk and compliance with relevant statutory, licence and regulatory obligations. The Committee received updates on the ongoing development of the Group's strategic risk appetite framework noting that the subsequent review of strategic risk objectives would be influenced by the PR24 Final Determination and would be coordinated together with a pre-AMP8 review of strategic risks (and scoring). The Committee reviewed and approved the Internal Audit Charter, which sets out the scope of work for the Group's internal audit function and confirms its independence. The Committee was satisfied that the charter continued to reflect the appropriate detail required by the latest Chartered Institute of Internal Audit UK publications and guidance on Internal Audit Charters. Business Systems and Quality Audit Plans were reviewed by the Committee prior to being presented to the Quality and Safety Committee for approval.

Priorities for FY 24	Committee activity and outcome
Governance	The Committee received and reviewed the Group's regulatory submissions and assurance processes relating to the Annual Performance Report (APR), and draft Assurance Reports from Jacobs and the External Auditor. At the same time, the Committee received the Group's annual Risk and Compliance Statement (and associated Ring-Fencing Certificate), together with an Internal Controls update, and provided feedback to the Board on adopted assurance processes in advance of the Board's formal approval of the APR. The Committee received updates on the progress of the Leakage and Per Capita Consumption Committee from the Chief Risk Officer. The Committee Chair continues to be a member of the Leakage and Per Capita Consumption Committee. The Committee considered and approved certain policies and procedures. These included the Group's Treasury and Taxation strategies prior to publication, and progress with Supplier Payment Terms compliance in accordance with the Prompt Payment Code, which the Committee considered at its October 2023 meeting, noting positive progress against compliance targets. The Committee provided its recommendation to the Board to approve these policies in accordance with the Board's Terms of Reference. The Committee received updates on the FRC Position Paper on Restoring Trust in Audit and Corporate Governance (published July 2022) and agreed to undertake a RAG-rated Gap analysis in response to the updated Corporate Governance Code during FY 25. The Committee agreed minor amendments to its Terms of Reference and considered updates from the Group Secretary that demonstrated how the Committee had discharged its duties during the financial year. The Committee's review of its performance concluded that the Committee was working well and had discharged its duties set out within the Terms of Reference. The Committee received regular updates on key compliance areas, including Group vehicle operator licence, data protection, taxation and insurance arrangements to take reassurance that the Group has adequate and robust systems in place to manage emerging events.



CORPORATE GOVERNANCE REPORT
CONTINUED

Audit Committee report – continued

Priorities for FY 24	Committee activity and outcome
External Auditor	The Committee is supported by the External Auditor who was appointed, with effect from 1 April 2023, at the July 2023 Annual General Meeting. Prior to formal appointment, the External Auditor attended Committee meetings in May and June 2023 to observe while the previous External Auditor, KPMG provided its year-end updates to the Committee in May and June 2023. The Committee assessed the effectiveness of the external audit process at its September 2023 meeting, taking learnings from KPMG's tenure to inform ongoing and future work with the External Auditor. It reviewed the External Auditor's confirmation of independence, that is included in its half-year and end-of-year reports to the Committee. These reports set out the policy procedures by which the Committee satisfies itself that there are no factors that 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. The External Auditor presented their audit plan for FY 24 to the Committee in October 2023 and reported on progress against it at subsequent meetings of the Committee. The audit plan also highlighted key Corporate Reform matters, including the introduction of the FRC Minimum Standard for Audit Committees and External Audit and updates to the UK Corporate Governance Code. The Committee reviewed and approved the External Auditor reports at the half-year and full-year, including the confirmations of independence, being satisfied that the objectivity of the External Audit Partner and audit staff was not impaired, including in relation to the provision of non-audit services. The Committee approved the management representation letters, which were then signed by the Chief Financial Officer on behalf of the Group and provided to the External Auditor. The Committee reviewed the process for, and results following, the internal review of the effectiveness of the External Auditor, KPMG, which was conducted after the statutory audit for the year ended FY 23. This exercise supported FY 24 planning with the External Auditor. During FY 24 no regulatory inspection of the quality of the Group's audit has taken place. The Committee put forward its recommendation to the Board to re-appoint the External Auditor. See overleaf for more details and on the decision to appoint the External Auditor, which was approved by our Members at the AGM in July 2023.

Financial report and significant estimates and judgements

During FY 24, the Committee considered the following specific issues in relation to financial reporting of the interim and year-end results.

Key judgement and estimates	Subject of Audit Committee review	Conclusions
Provision for impairment of trade receivables	The approach to setting the bad debt charge.	Having assessed current cash collections performance, the Committee concluded that the current bad debt provision was appropriate, although this will continue to be closely monitored in light of recent inflationary changes.
Classification of costs	Classification between operating expenditure and capital expenditure.	Classification of costs, including employee and other internal expenditure, between operating expenditure and capital expenditure was considered to be appropriate and in line with accounting policies.
Fair value estimation	The approach taken to the assessment of fair value estimation and capitalisation.	The Group's adjusted Fair Value Estimation, which had been subject to external review, was considered to be appropriate.
Reasonableness of the defined benefit pension liabilities assumptions	The assumptions that are applied to the pension valuation including discount and inflation rates.	The Committee's review of the assumptions for discount and inflation rates that were applied in the pension valuation, concluded that, overall, these were within the range of acceptable assumptions.
Going Concern Status	Assessment of the Groups Going Concern Status.	Having assessed financial liquidity at year-end, the Committee concluded that the Group remain a going concern and that it was appropriate to prepare annual financial statements on that basis.

The above matters are discussed in more detail in the Auditor's Report on page 158.

Audit tender

The Board agreed to engage Deloitte LLP as the Group's Auditor following formal approval by our Members at the AGM in July 2023.

Non-audit services and fees

The Group's policy is that the External Auditor will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy and management approval pursuant to the Group's. Policy for the Provision of Non- Audit Services. All non-audit fees paid to the External Auditor must be approved by the Committee in advance in line with the Committees delegated authority. To comply with the FRC's revisions to the Code, there is a cap on fees for non-audit work across the Group of 70% of the 3-year average statutory external audit fee for the Group in any financial year, applicable from the financial year starting 1 April 2020.

During FY 24, audit fees for the Group's financial statements totalled £577,000 (FY 23: £535,000), fees for other audit-related assurance services were £106,000 (FY 23: £111,000) and fees for other non-audit-related services amounted to £141,000 (FY 23: £71,000). As a result, non-audit fees accounted for 28% (FY 23 11%) of the average of the last 3 years' audit fees, which is well within the limit. For further details of the non-audit services provided by Deloitte, see Note 3 to the Financial Statements on page 186.

Jane C Hanson

Jane Hanson
Chair of the Audit Committee

6 June 2024

CORPORATE GOVERNANCE REPORT
CONTINUED

Technology Committee report

Prof. Tom Crick MBE

Chair of the Technology Committee

Other members:
- Barbara Moorhouse (joined in March 2024)
- Joanne Kenrick
- Alastair Lyons
- Rob Norris, Chief Technology Officer (CTO)
- Peter Perry

The Managing Director of Water, Asset Planning and Capital Delivery attends all meetings of the Committee.

Meetings held: 4

See page 99 for Board and Committee meeting attendance

Focus areas looking ahead to FY 25:

- Review and monitor progress with the IT Service (ITS) team transformation and ongoing development, including
  - security programme, including increased focus on cyber threats due to geopolitical situation (e.g. Ukraine), increasing our CMMI security maturity level and improving cyber risk awareness across the business;
  - post-implementation review of the Cloud migration programme;
  - implementation of the remainder of the AMP7 Investment Plan and planning of investment for PR24 (AMP8) including the SAP S/4HANA upgrade;
  - monitoring the Group's readiness for the discontinuation of the UK's Public Switched Telephone Network (PSTN) in 2025;
  - monitoring implementation of the Group's Artificial Intelligence (AI) strategies and platforms over the course of the year and into AMP8;
  - ongoing review and monitoring of the use of Sensors Data and Smart Sensor Technologies to support developments in live performance reporting; and
  - the ongoing review of the Group's Business Continuity and Disaster Recovery readiness.

Principal responsibilities

To approve the strategies developed for the Group's information technology (IT), operational technology (OT), and information security provision; including oversight of cyber risk protection and mitigation to support 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.

To review the implementation plans to deliver the Group's technology strategies and to oversee the progress being achieved, including reviewing and tracking progress of the Group's obligations under the Network and Infrastructure Systems (NIS) Regulations 2018.

The Committee Terms of Reference (corporate.dwrcymru.com/en/library/terms-of-reference) set out 11 distinct areas over which the Committee retains a duty to oversee, scrutinise and review the IT, OT and Information Security provisions of the Group. These areas and duties have informed the agenda and key areas of focus for the Committee during FY 24.

<table>
<tr><th>Priorities for FY 24</th><th>Committee activity and outcome</th></tr>
<tr><td>This includes the detail approved internally</td><td>
The Committee received strategic updates at each meeting during FY 24, which focused on:

The remainder of the AMP7 Investment Plan and its alignment to the Technology Strategy. The Committee considered the current strategy, the technology landscape, and team/partner capability, in the context of the AMP7 delivery plan and AMP8 Technology Plan preparation in line with the Group's longer-term plans.
The Group's journey to Cloud. The Committee monitored management's oversight of the relationship with, and performance of, a key Cloud support partner alongside the Cloud programme's progress and governance oversight.
Progress with AMP8 Investment planning.

The Committee received an overview and review, including industry benchmarking, of the Group's journey to S/4HANA from PwC at its June 2023 meeting. The Committee noted that there was confidence that the S/4HANA programme would be successful due to the due diligence undertaken internally and with partners. Updates on progress against the S/4HANA programme were received at each meeting of the Committee during FY 24.
The Committee received and noted progress against annual updates on the Group's strategies in relation to: Data Strategy and Enterprise Data Platform (EDP), SMART (water and wastewater network) Strategy, Retail Digital Strategy and Alarm Management.
Throughout 2024/25 the Committee will maintain oversight of the Group's SAP S/4HANA Programme.
As it prepares for AMP8, the Group has mobilised workstreams in preparation for the move to SAP S/4HANA, a new Enterprise Resource Planning system focused on addressing end-of-life systems. Through this work the Group is confirming positions on the right technologies to use and has started the preparatory work, with data and old code cleansing activities. The introduction of SAP S/4HANA will build on the digital foundation implemented in AMP7 to enable the Group to further modernise the business by investing in new 'plug and play' technologies, and enable the 2050 vision by meeting rapidly evolving consumer expectations, enhancing cyber security, embracing big data analytics and cloud services.
Good progress has been made in building the AMP8 Technology Investment plan, which is aligned with the business and IT strategies. The plan, which the Committee will monitor and scrutinise during 2024 and 2025, is built on a clear understanding of the key technology platform drivers including system obsolescence, while keeping a strong focus on cyber security and resilience. This process has required a deeper understanding by ITS of the Group's direction and of the opportunities to exploit technology platforms to deliver business efficiency and transformation to improve customer and field force experience. This is alongside the continued transformation of the ITS team towards the exploitation of Cloud technologies and fostering an innovation-led culture.
</td></tr>
<tr><td>Information and Cyber Security</td><td>
The Committee received updates from the Chief Information Security Officer (CISO) at each meeting on progress with the Group Information Security Plan, including:

Key information security risks, including KPI and KRI (Key Risk Indicators) reporting;
Confirmation of completion of significant milestones within the Cyber Security Programme and the delivery of incremental improvements to Cyber Security capabilities; and
Updates on progress to strengthen the cyber culture and awareness within the Group to achieve an improved and more mature level of cybersecurity.

The Committee received regular updates on the prevailing cyber and information security threat landscape including heightened cybersecurity threats (e.g. Denial-of-Service (DoS) and ransomware attacks) across Critical National Infrastructure organisations. The Committee and senior Security Operations colleagues reviewed the Group's plans for cyber resilience in the context of this input.
The Committee reviewed the Group response to a specific DoS cyber attack of the Group's website in June 2023 and the outcome of participation in cyber incident response exercises led by Defra, the National Crime Agency and Cyber Resilience Centre Wales alongside internal resilience testing.
The Committee noted steps taken to improve the Group's Cyber Security maturity, including the outcome of a month-long Group-wide resilience campaign in February 2024, which included a cyber week and webinar with Dr Jessica Barker (security culture and awareness expert) who provided external expert insight for colleagues.
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CORPORATE GOVERNANCE REPORT
CONTINUED

Technology Committee report – continued

Priorities for FY 24	Committee activity and outcome
Operational Technology	The Committee received updates on Operational Technology (OT) performance and security measures at each of its meetings and monitored the wider use of technology to protect the Group's operational assets. The Committee also received updates on the Group's compliance with the NIS Regulations 2018 following the Drinking Water Inspectorate's (DWI) assessment of the Group's Cyber Assessment Framework (CAF) responses. The Committee noted progress made against the CAF with the Group remaining on target to meet, and in places exceed, DWI sector targets by the end of AMP7. The Committee reviewed the impact on the Group of the discontinuation in 2025 of the UK's Public Switched Telephone Network (PSTN), the legacy analogue public telecommunications infrastructure. The Committee will continue to monitor the management of this transition, which is, through both a Group and industry response via the Water UK Operations Strategy Group, considering different technology solutions appropriate to our affected assets. Updates are brought to the Committee at each meeting. Business Continuity and ITS Disaster Recovery plan updates were shared with the Committee, which provided reassurance regarding the governance models in place and the robustness of operational plans for critical infrastructure and applications. The Committee agreed that annual updates in this area would be shared with the Committee in addition to ad hoc updates to detail the findings of planned testing exercises.
Governance	The Committee reviewed, with input from the CTO and CISO, its Terms of Reference, alongside an assessment of how it had discharged its duties during the financial year. Minor amendments to the Committee Terms of Reference were agreed by the Committee. Having reviewed the Committee's Terms of Reference, the Committee agreed to reduce the number of Committee meetings from 4, to 3 per year. The Committee's review of its performance concluded that the Committee had made good progress during FY 24 in its oversight of the Group's IT, OT and information security provision. The Committee also reviewed its effectiveness as part of the detailed Board evaluation conducted during the year. The Committee has noted the continued strengthening of the Group's cyber resilience throughout IT and Security operations, which have been supported by the ongoing ITS Transformation Programme. With increasing global cyber threats, especially for CNI organisations, the Group has adopted a risk-averse stance, and will continue to invest in appropriate cyber security technologies and infrastructure, as well as further developing its cyber culture. It will also oversee the Group's plans to optimise the use of Cloud-based platforms and its preparations to upgrade to SAP S/4HANA.

Tom Crick
Chair of the Technology Committee

6 June 2024

ESG Committee report

Debra Bowen Rees

Chair of the ESG Committee

Other members:

- Jane Hanson
- Peter Perry
- Alastair Lyons
- Mike Davis
- Lila Thompson

Meetings held: 4

See page 99 for Board and Committee meeting attendance

Focus areas looking ahead to FY 25:

- Reviewing and recommending to the Board, approval of an updated ESG strategy and re-defined ESG KPIs to support delivery of PR24 plans taking account of Ofwat's final determination.
- Overseeing the implementation and delivery of the Group's Estate Management Strategy.
- Implementation of the Group's Sustainable Procurement Strategy.
- Reviewing the Group's progress towards the achievement of its carbon reduction targets to net zero
- Overseeing the development of the Group's Biodiversity Plans and Reporting for 2025.
- Overseeing, advising upon and reviewing the Group's Non-financial reporting obligations and submissions.
- Ensuring that material ESG measures are monitored and reported to the relevant Board Committees, and to prioritise those areas that are the most important to our stakeholders, and in doing so, ensuring that the Committee meets its objectives.

Principal responsibilities

The responsibilities of the Committee are:

- Developing and overseeing the Group's ESG Strategy (corporate.dwrcymru.com/en/about-us/investors/environmental-social-and-governance);
- Monitoring performance against the Group's ESG objectives and key performance indicators;
- Considering third-party partnerships entered in relation to the ESG Strategy;
- Considering the reporting conventions and the ESG metrics that should be adopted by the Group;
- Considering the Group's reporting to ESG Rating Agencies, and the selection of rating agencies by which to be assessed;
- Reviewing upcoming ESG reporting requirements and the Group's assessment of their implications, both strategically and operationally, for the Group's business and its reputation; and
- Ensuring that the Group maintains appropriate policies to effectively support its ESG framework, in particular its environmental impact.

The Committee, established during FY 22, has continued to make progress on reporting strategy and processes and the management and oversight of ESG risks and opportunities. This has involved further development of the ESG Strategy and objectives and Key Performance Indicators (KPIs), which the Committee uses to monitor performance against the Group's ESG objectives. Our focus during the rest of AMP7 will be to ensure the alignment of our ESG Strategy with operational and investment plans for PR24. To support this work the Committee will receive regular updates from the Climate Change and Sustainability sub-committees of the Dŵr Cymru Executive Team, which advise on matters relating to climate change adaptation and support effective engagement in areas concerning long-term sustainability.

During the year, the Group has continued to report against the TCFD. Work this year has helped bring together coherent content across various reporting frameworks, including TCFD, Climate Change Adaptation and the UN Global Compact; all of which fed into our PR24 planning. Building on the progress made over FY 24, our focus in FY 25 will be the further development of reporting in full compliance with TCFD and reviewing emerging non-financial reporting frameworks where these align with our ESG objectives and Welsh Water 2050 strategy.

During the year, Sustainable Fitch (the ESG division of Fitch Ratings) undertook a rating review of the Group resulting in the award of '2' ('Good' ESG profile).

The Committee Terms of Reference (corporate.dwrcymru.com/en/library/terms-of-reference) set out 8 distinct areas over which the Committee retains a responsibility to oversee, scrutinise and review on behalf of the Group. These areas and duties have informed the agenda and key areas of focus for the Committee during FY 24.

CORPORATE GOVERNANCE REPORT
CONTINUED

ESG Committee report – continued

Priorities for FY 24	Committee activity and outcome
Strategy The Group ESG Strategy is published on the Group's website dwrcymru.com/esg	The Committee reviewed performance against the Group's 10 ESG objectives, involving deep dives into the following areas: • Progress against Safeguard Zone plans, which support the delivery of our Welsh Water 2050 Strategic Response 1 – Safeguarding clean drinking water through Catchment Management. • Long-Term Planning and Sustainability including a review of the Group's Sustainability Funding Strategy at the August 2023 Committee meeting. • The impact of the Group on the Welsh economy. Adapting to future challenges (see Climate Adaptation Reporting) • Net Zero Carbon Strategy including a chart of emissions to assist with AMP8 Monitoring and Carbon Migratory plans for PR24. • Task Force on Climate-Related Financial Disclosures (TCFD) reporting and associated risks. • Sustainable Fitch Rating feedback. • Sustainable Procurement (see below) • Working to create tangible benefits in the communities we serve. • Attracting and retaining a diverse workforce to reflect the communities we serve. • Ensuring affordability including updates on planning ahead of AMP8. The Committee received the outcome of a double materiality exercise supported by the Dŵr Cymru Independent Environmental Advisory Panel (IEAP) and the Company's Independent Customer Group, which prioritised 8 performance measures linked to the 36 agreed KPI measures, which support achievement of the Group's 10 ESG Strategic Objectives. The Committee received updates upon, and scrutinised performance against, each of the prioritised measures alongside Strategic Objective updates, which enabled the Committee to concentrate resources on those issues that best support the long-term sustainability of the business and address key stakeholder expectations.
Environment	**Net Zero Carbon Strategy** The Committee has received regular updates on the progress towards the delivery of the Group's Net Zero Carbon Strategy, including in relation to six work packages identified to achieve net zero emissions by 2040: • Reducing use of energy and increasing our own renewable energy generation. • Using sewage-derived biogas to decarbonise heat and/or transport. • Gradually transitioning to a low-carbon-fuelled fleet. • Actively controlling and reducing fugitive emissions from treatment processes. • Monitoring and reducing construction-related carbon emissions. • Maximising carbon sequestration and biodiversity. In addition, the Committee received a deep dive review into Carbon Migratory work for PR 24 at its March 2024 meeting. The Committee received and approved the Group's Climate Change Adaptation Report at its August 2023 meeting. Further detail on the Group's Climate Change Adaptation Plan can be found online at the following link: corporate.dwrcymru.com/en/about-us/our-plans The Group's Estate Management Strategy was approved at its February 2024 Board meeting. The Committee maintained an oversight of key deliverables within the Estate Management Strategy including initiatives to enhance biodiversity, carbon sequestration, and improve the water quality in our reservoirs. While the Committee continues to maintain oversight of the Group's key ESG strategies and policies, it is supported by the Quality and Safety Committee in reviewing and maintaining oversight of the Group's operational environmental performance. See pages 118 to 120 for further detail of the business of the Quality and Safety Committee.

Priorities for FY 24	Committee activity and outcome
Social	**Key stakeholder relationships** The Committee reviewed key stakeholder relationships and actions arising. This supports the Committee's understanding of the interaction of the Group with key stakeholders on ESG issues on a periodic basis and also increases its understanding of stakeholder expectations and the Group's impact on the outside world. **Sustainable procurement** The Committee received progress updates on the development of a Sustainable Procurement Policy from the Procurement team. This included a review of the impact of Welsh Water's expenditure on the Welsh Economy, which demonstrated that the Company directly and indirectly supports high levels of economic activity in Wales (see page 75 for more details). The Committee considered updates to the Sustainable Procurement Policy (SPP) in April 2024. For more details on the SPP see page 75. **Diverse workforce** The Committee received a presentation from the Business Support and People Director on the results of the FY 24 Staff Survey and progress with attracting and retaining a diverse workforce to reflect the communities we serve. The Committee noted that 80% of the workforce had declared their ethnic profile, which was a significant improvement and meant that the Group is moving closer to being able to compare Welsh Water relative to Wales as a whole. **Customers and the communities we serve** At its November 2023 meeting, the Committee received updates from the Customer Strategy and Engagement Director and the Managing Director – Household Customer Services regarding engagement with our customer base, including ongoing work with vulnerable customers and the introduction of the Company's newly expanded 'Cymuned' (Community) Support Fund, which offers short-term support to working households who find themselves in a situation where their bills exceed their income. The Committee noted that at mid-year, the Company had supported 131,446 households via its social tariff offerings, and a further 16,467 with its financial assistance schemes.
Governance and risk	**ESG reporting** The Committee reviewed ESG reporting in the Annual Report and Accounts, including TCFD. It also reviewed and scrutinised the Company's Climate Change Adaptation report and the Group's approach to emerging non-financial reporting frameworks. The Committee considered and approved for final approval by the Board, the ESG narrative reporting in the FY 24 Annual Report, **ESG rating and accreditations** The Committee received the Sustainable Fitch ESG Rating Report with a score of 2 (highest being 1, lowest being 5) based on its FY 23 ESG reporting. The Committee noted the recommendations the report made to maintain and further improve this score at its November 2023 meeting and will track achievement of these recommendations throughout 2024 and 2025. **ESG risks** The Committee reviewed ESG risks and opportunities on a 6-monthly basis. These risks are mapped against the Group's Enterprise Risk Management (ERM) and their development has fed into TCFD reporting of climate-related risks and opportunities. The Committee recognised the risks that fall within the ESG Framework against those which would be overseen within the business area where the risk is addressed or overseen by another Board Committee e.g. QSC. The Committee agreed that all ESG risks, which were not directly overseen elsewhere in the business, would fall within the direct oversight of the Committee. **ESG Committee effectiveness** The Committee reviewed and updated its Terms of Reference at year-end, which aligned with updated Chartered Governance Institute UK model Terms of Reference and reviewed its performance against the duties set out within these. The Committee noted that no amendments were proposed to its Terms of Reference and concluded that it had discharged its duties during FY 24.

Debra Bowen Rees
Chair of the Environment, Social and Governance Committee

6 June 2024

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report

Joanne Kenrick

Chair of the Remuneration Committee

Other members:

- Debra Bowen Rees (until 2 February 2024)
- Tom Crick
- Alastair Lyons

Meetings held: 5

See page 99 for Board and Committee meeting attendance

The Committee Chair has been a member of the Remuneration Committee since September 2019 and has held the position of Chair since the Committee's November 2020 meeting. The Chair has additional relevant experience as Chair of a Remuneration Committee for another company since 2018.

Overview of this report:

Principal responsibilities

The Committee is responsible for recommending to the Board and Glas Members for approval: (i) the Executive Directors' Remuneration Policy via a binding vote at least every 3 years (or earlier, if coinciding with a new AMP cycle); and (ii) the Annual Report on Remuneration via an advisory vote every year.

The Committee determines the remuneration for the Chair of the Board, the Executive Directors and DCE members within the parameters of the approved Remuneration Policy. Although the Chair of the Board is a member of the Committee, he does not participate in any decisions in respect of his own 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 and annual remuneration decisions.

Our Policy was last approved at the 2023 AGM. Our next full review will take place in 2025 to align with the start of the new AMP. The Committee's remit is set out in detail in its Terms of Reference, which is available at dwrcymru.com/termsofreference.

During FY 24, the Committee received independent advice from Korn Ferry, who are signatories to the Remuneration Consultants Group Code of Conduct, and their advice is governed by the Code.

The Committee is satisfied that the advice received from Korn Ferry was independent and objective. The fees payable to Korn Ferry were £85,589 plus VAT (FY 23: £44,136 plus VAT to Korn Ferry and £38,575 plus VAT to the previous advisers, Deloitte).

Section 1: Remuneration Committee Chair's Statement

Dear Glas Members

On behalf of the Board, I am pleased to present our FY 24 Remuneration Report.

Business, employee and Member context

As explained within the Chief Executive's message (page 15), Welsh Water continues to experience the most challenging period in its history, in common with many other water companies. I am proud of the resilience of our leadership team against a backdrop of difficult operational issues, management of our substantial long-term investment programme, and sustained external scrutiny from the media and our regulators.

The Company has a stated commitment to its performance improvement programme, and the underlying programme of investment to improve the resilience of the assets on which we depend. There is, of course, a delicate balance between funding investment, managing the level of bills to our customers to keep them as affordable as possible, and also maintaining an optimal level of financial gearing. Whilst delivering on this infrastructure investment is absolutely critical to our strategy, some of the benefits that will flow from this will not be felt tangibly for a number of years.

In November 2023, we published our Service Commitment Plan (SCP) which set out our plans to address the areas in which we currently fall short of Ofwat's regulatory expectations. These are: leakage, per capita consumption, supply interruptions, drinking water quality, mains repairs, pollutions and treatment works compliance. The SCP outlined our planned actions and goals in FY 24 and FY 25 to return these areas as quickly as possible to the performance standards that our customers, Members and regulator rightly expect, with the aim that by FY 25 Welsh Water is no longer assessed to be a lagging company.

To achieve the FY 25 targets set out in the SCP will be stretching for management, not least because their delivery may be impacted by factors outside of our control. For example, weather events such as exceptionally high rainfall can affect the ability of our assets to function as intended, which can in turn negatively impact factors such as water quality, leakage and pollution incidents. A severe drought or freeze thaw, both of which occurred in 2022, has a material impact on the propensity of pipes to burst, affecting both our leakage and pollution deliverables. Nonetheless, we are striving hard to implement this ambitious action plan in all areas. Accordingly, for FY 25, so as to align management as closely as possible with the delivery of the SCP, we have set the SCP targets as the stretch deliverables within the operational performance part of the Annual Variable Pay Scheme ("AVP"), itself comprising half of the AVP potential.

In my statement last year I reported on the restatement of regulatory reporting of leakage and per capita consumption for prior years as revealed by our internal assurance processes. As a consequence of this restatement the Committee last year considered the applicability of malus and clawback provisions within the company's variable pay schemes. As regards clawback the Committee concluded that the variable pay outcomes for FY 21 and FY 22 remained reflective of the overall corporate performance for those years. As regards malus the Committee accepted the CEO and CFO's offer to waive their FY 23 variable pay, a decision in part linked to the Regulatory Reporting Review. Ofwat's formal investigation of this misreporting in 2024 had findings largely consistent with our own review. The Committee is, therefore, satisfied that the actions taken last year remain appropriate.

Context for Reward Decisions

It is against this demanding backdrop that the Remuneration Committee must make its decisions on reward for the Executive Directors and the remainder of the Executive Team (DCE). The Remuneration Committee has a careful balance to strike, with many factors to consider.

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

For example, benchmark data consistently shows that the salaries and total remuneration opportunity of our Executive Directors are among the lowest in the UK water industry. On the other hand, public attitudes towards remuneration within the water industry as a whole, as well as political and regulatory developments, place pressure on the Committee to continue restraint in the decisions we make on executive pay. Furthermore, when making pay decisions now, in particular with regard to setting appropriately stretching targets for variable pay, it has to have regard to the time it will take for the performance improvement initiatives and investments currently being undertaken to deliver the projected benefits.

The Committee considers that the manner in which the Company's management team is tackling the challenges faced by the business, and its progress in implementing the plans it has developed to improve performance, demonstrate the depth of experience and commitment of our Executive Directors and the DCE. It is critical as we look forward into the next AMP cycle that the Company is able to attract and retain strong leaders both at Executive Director level and at senior management level, at a time when the water industry most needs them. The decisions we make on remuneration now and in the future must be taken carefully to ensure that this is possible.

Remuneration across Welsh Water

The decisions and debates that we have as a Committee about directors' and executive remuneration include careful consideration of how we remunerate our employees and to feedback from the business as to the wider employee experience.

For FY 25, we have agreed an employee pay increase of 4.2% for our wider workforce. Following the agreement we made with the unions at the start of this AMP, it is in line with the rate of CPIH in December 2023.

We have continued to evolve our process of engagement with employees, and I have met with a small focus group of colleagues from within the business to understand their perspectives on their own remuneration, and to explain and discuss how our principles are applied at Executive Director level.

The company has a continuing focus on diversity and inclusion, and in that context I was very pleased to see that our median gender pay gap for 2023 (published in April 2024) showed only a slight increase from 3.6% to 4.8%, mainly due to the increase in the number of females in the lower paid half of the workforce. The mean gender pay gap continued to reduce, falling from 6.0% in 2022, to 5.6% in 2023. In respect of our bonus pay gaps, the median continued to be zero due to the inclusive nature of the colleague reward scheme whilst the mean increased to 11.1% in 2023 (2022: 6.8%), mainly due to some senior female leaders leaving during the year.

Remuneration for FY 24

- Salary increase for employees effective from 1 April 2023: 6.2%
- Colleague reward scheme payout of £1,000 paid in June 2023
- Employee Variable Pay Schemes Company portion paid in July 2023 at 31.2% of maximum based on performance achieved.
- Gender pay gap: median of 4.8% and mean of 5.6% as at snapshot date 5 April 2023. Ethnicity pay gap (calculated and published for the first time): median of 3.47% and mean of 5.68% as at snapshot date of 5 April 2023

Remuneration for FY 25

- Salary increase for employees effective from 1 April 2024: 4.2%
- Colleague reward scheme payout of £1,000 to be paid in July 2024
- Employee Variable Pay Schemes Company portion to be paid in July 2024 at 18.13% of maximum based on performance achieved

Key work carried out by the Committee during FY 24

Although we are not a listed company, we adopt governance applicable to a publicly listed company. We therefore put our Remuneration Policy to Glas Members for approval at least every three years. Our mid-cycle Directors' Remuneration Policy for the balance of AMP7 was approved by Glas Members at the AGM in 2023, ensuring that the policy and operation of our variable pay schemes align with our key performance and delivery objectives for the remainder of AMP7. Our next full policy review will take place in 2025, aligning with the AMP8 Determination. The Committee's focus in FY 24 has, therefore, been on the successful implementation of our variable pay schemes during the year.

Further detail on the planned operation of the AVP for FY 25 is set out below. The LTVPS approach and targets will remain unchanged for 2024/25, as these were set at the start of AMP7.

Looking back – pay outcomes in relation to FY 24

The Committee reviewed the outcome of the AVP and LTVPS scorecards following the end of the financial year, and the full outcomes are set out in Section 4.

AVP scorecard summary

For FY 24, the formula-based scorecard out-turn resulted in payouts to the Executive Directors of 25.77% of maximum. Payouts against our Customer, Operational and Strategic goals were 7.06% out of 30%, 6.25% out of 50% and 12.46% out of 20% respectively.

This was indicative of the stretching nature of the targets and the challenges that the business faced, as detailed above and also more extensively within the Chief Executive's message. We recognise that the performance improvement plans developed and now being implemented by management, together with the supporting investment projects, would not immediately impact the operational KPIs that we have set in our AVP. This meant that six out of seven of the operational measures were not met during FY 24.

With regards to customer metrics, we scored between threshold and target against the customer service measures set for last year.

Finally, the Remuneration Committee assessed performance against our strategic metrics to be around on-target with both the preparation of our PR24 submission and the kilometres of river improved – a key environmental metric –ahead of target.

Having reviewed the outturn of the scheme, the committee also gave detailed consideration to whether it was appropriate to exercise discretion to amend the outcome in any way. The Committee considered that Ofwat's final determination metrics provided stretching targets for the business that were challenging to achieve, and that the scheme had operated as designed in reflecting this. In this discussion, serious water quality events, pollution prosecutions, and health and safety performance were also key factors. Consideration was given to a report received from the Quality and Safety Committee outlining that there were no category 1 pollution incidents and, with regard to the seven category 2 incidents, there was no fish kill. Also, health and safety incidents had been at their lowest ever level during the year. Given this information and the fact that the committee felt the outturn was representative of overall performance in the round, the committee elected not to exercise its discretion on this occasion.

LTVPS scorecard summary

For FY 24, the formulaic scorecard out-turn did not result in payouts to the Executive Directors as the threshold levels were not reached. More specifically, our Totex performance reflected the deployment of additional critical investment in our asset improvement programme and was not, therefore, met. Our ODI performance was particularly impacted by high leakage and water main burst penalties, which more than offset above target performance in other elements of the scorecard (for example, km of river improved).

Looking forward – remuneration for Directors in relation to FY 25

In line with the normal annual cycle, the Committee reviewed salary levels for the Executive Directors and the DCE members in March 2024. The Committee considered several reference points, including the proposed increases for the wider workforce, business and individual performance in FY 24, and the wider economic context. As a result, the Committee decided to increase Executive Director salaries by 4.2% from 1 April 2024, in line with the increase for the wider workforce.

The Committee believes that this is an appropriate increase given the current context but is mindful that this leaves the executive at the bottom of market comparison. The Committee had reviewed the car allowance for the Executive Directors last year, and found this was well below the market rate. It therefore implemented the second phase of the increase to the car allowance for FY 25 taking it from £8,500 to £12,000.

The Committee also reviewed the fee for the Chair of the Board, taking into account external market benchmarking and internal relativities. The Committee's conclusion was that it was appropriate to award a 4.2% increase to the Chair, in line with the increase applied to the Executive Directors and the wider workforce.

The fees of the Non-Executive Directors were reviewed by the Board (excluding the Non-Executive Directors), who decided that the base fee should remain unchanged, but that the separate fees for chairing the Board Committees should be increased by £2,500, as follows:

- From £10,000 to £12,500 per annum for the Chairs of the Audit, and Quality and Safety Committees.
- From £7,500 to £10,000 per annum for the Chair of the Remuneration Committee
- From £2,500 to £5,000 per annum for the Chairs of the Environmental, Social and Governance, and Technology Committees.

The Senior Independent Director (SID) receives an additional fee of £10,000 per annum which is unchanged from last year.

Salaries and fees applying for the Directors in FY 25 are set out on pages 147 and 148.

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

AVP Measures for FY 25

For the FY 25 AVP a potential maximum of 100% of salary may be earned, based on performance achieved. In line with the Committee's annual review of the scorecard of measures, it determined that the overall weightings of 30% Customer, 50% Operational and 20% Strategic remained appropriate for the Company's business and stakeholder priorities.

Given, however, management and the Board's overriding focus on performance improvement, the Committee has determined that the metrics to be used in the Operational Performance element of the scheme should be aligned with the measures in the SCP, being those in which we are not considered by Ofwat to be meeting the expected regulatory standards. Accordingly, the target ranges set for each measure (which will be disclosed in full in our FY 25 Directors' Remuneration Report) will be aligned with the extent to which the SCP is delivered during FY 25, and require progress to be made above the FY 24 position in order for any payment to be considered.

The Committee also reviewed the weightings of each metric in the light of the Company's internal priorities and regulatory expectations. As a result, it has allocated 35% of the total AVP potential directly to performance against environmental measures (namely pollution incidents, waste water compliance, leakage and km of river improved), with 20% based on pollution incidents. Further detail on the breakdown of the AVP metrics for FY 25 is set out on page 148.

Member context

We welcome the views of our Members when making judgements and, among other reference points, actively consider these views in the Remuneration Committee's meetings. At the July 2023 AGM, I explained to Members the challenges that the Remuneration Committee has when making decisions on executive remuneration. I am pleased that Members show consideration and understanding of the issues that we face, and we received a high level of support from Members on the remuneration resolutions. Where Members voice concerns or raise questions, I actively follow up directly to further listen to and discuss suggestions and perspectives. All member feedback is also discussed by the Remuneration Committee. We appreciate all feedback both through the formal AGM process, as well as direct from Members, and welcome a cross-section of views.

During FY 25, I plan to run a session with new Members to explain the work of the Remuneration Committee, our executive remuneration principles (set out in Section 2), and how the remuneration policy operates. In addition, as well as my annual update on remuneration at the AGM in July, over the course of the year we intend to update Members as to the work we have carried out during 2024 in developing the Remuneration Policy for the next AMP, which will be presented at the AGM in 2025.

Remuneration Policy review for 2025

Towards the end of FY 24, the Committee began planning for the more substantive 2025 Policy Review that will coincide with the start of the AMP8 cycle. This will look in detail at how our schemes align to the Regulatory Determination (once agreed) to ensure that our executive remuneration structures appropriately support the delivery of the operational priorities which we anticipate will form a key part of the Determination.

As I noted in my introduction, the Committee is very sensitive to the challenges faced by the water industry at present, the related public sentiment and the heightened regulatory scrutiny on executive pay that has been announced by the UK Government and Ofwat. Notwithstanding these factors, the Committee must ensure the Company remains an attractive place to work, where strong effective leaders (as with employees throughout the Company) feel valued and fairly remunerated for their efforts and achievements along the path to delivering their end objectives. It is against these considerations that the Committee will be reviewing the Remuneration Policy for the next AMP cycle, and a range of different approaches will be considered.

I look forward to engaging with Glas Members, colleagues, and other stakeholders during the year as our review progresses.

Joanne Kenrick
Chair of the Remuneration Committee

6 June 2024

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 05 of this Annual Report, 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 Remuneration Principles that apply to the Committee's work. The Principles, listed in the table below, were last shared with Members at the 2020 AGM. As the 2023 Policy Review was a mid-cycle review taking us to the end of the AMP7 regulatory cycle, the Principles remain unchanged.

1	2	3	4
Remuneration should reward/incentivise the long-term interests of the business, promote its long-term sustainable success and reflect its agreed future strategic approach.	Remuneration should help align the interests of Directors and employees with the Group's customers, and reflect the Company's Purpose and values.	Remuneration should be focused on the issues of key concern to the business – water and environmental quality, customer service and financial performance.	Remuneration should reflect Welsh Water's aim to be one of the best-performing companies in the sector.
5	**6**	**7**	**8**
Remuneration targets should be stretching in relation to past performance and in comparison with other companies in the sector. Where possible, they should be hard numbers that can be audited.	Remuneration is intended to incentivise management in the absence of shareholders and share options.	Remuneration should be fair and competitive in relation to the sector and internally so as to help attract and retain high-calibre individuals.	An appropriate proportion of remuneration for the Executive Directors should be variable so as to achieve the right balance in relation to risk-taking.
9	**10**	**11**	**12**
The remuneration structure should be sufficiently clear that those affected by it understand what it is aiming to achieve.	Remuneration will be transparent to Glas Members and regularly subject to their approval.	Remuneration should take account of the Company's non-shareholder model, and the views of Members and other stakeholders.	Decisions made by the Committee should take account of workforce remuneration and related policies, and the alignment of incentives and reward with culture.

When developing the Remuneration Policy and considering its implementation for FY 24, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance, and the FRC's 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 on matters of pay. 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). Actual incentive outcomes are set out in the Remuneration Report each year.
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.
Risk	The Committee has discretion to adjust AVP and LTVPS outcomes if it considers these inconsistent with overall Company performance, taking into account any relevant factors. Malus and clawback provisions apply to both the AVP and LTVPS.
Predictability	Maximum opportunities for AVP and LTVPS are set out in the Policy, with actual outcomes depending on the level of performance achieved against specific measures.

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

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 consider the data in its context, including the complexity of the role.
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 because the annual award of every colleague is determined by achievement against the same key targets, to a greater or lesser degree.

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 encourage a focus on achieving the long-term strategy of the Company. It must also be fair to individuals and the wider workforce. The Committee is mindful when setting the Remuneration Policy and determining pay outcomes, of our not-for-shareholder model.

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

This report includes an explanation of the Company's Executive Pay Policy and how the criteria for awarding short and long-term variable remuneration elements are linked to stretching delivery for customers and are rigorously applied.

Linking pay to the perspectives of our main stakeholders

Our Remuneration Policy for Executive Directors considers the perspectives of our internal and external stakeholders, including our customers, employees, Members, relevant regulatory bodies and wider society. We look at this in terms of how stakeholders should influence the setting of remuneration policies, as well as their influence on pay outcomes. Throughout all such decisions, there is the need to balance stakeholder expectations with the need to attract and retain key individuals with the relevant experience and capabilities.

	Members	Customers and wider society	Employees	Governmental and Regulatory bodies (e.g. Ofwat)
How do we engage on pay?	Members play an essential governance role in approving our Remuneration Policy and outcomes. We engage annually at the AGM and ensure the Remuneration Committee Chair is available to discuss pay issues with Members as required. Our Remuneration Policy is subject to approval at least every three years, and an advisory vote on the rest of the Directors' Remuneration Report takes place at every AGM.	We do not hold a specific engagement program with our customers on Executive remuneration matters. However, as one of the largest companies in Wales with a significant impact on the socio-economic landscape, the Committee is very sensitive to the high public profile of remuneration, and the sentiment of customers as well as society as a whole. This frames all of our decisions on Executive remuneration.	As part of our broad colleague engagement programme, we discuss 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 of such discussions are fed back to the Remuneration Committee.	Where the regulator seeks to directly engage on pay matters we respond appropriately.
Link to remuneration principle(s) number	1 2 3 10 11	1 2 3	2 11 12	3 4 5

	Members	Customers and wider society	Employees	Governmental and Regulatory bodies (e.g. Ofwat)
Impact on remuneration outcomes (examples)	• All Executive pay decisions are made having considered the views of Members. • While there are no specific targets within our variable pay schemes in relation to Members, the Remuneration Committee's discretionary powers mean that all pay outcomes are determined based on ensuring accountability to Members (among other stakeholders).	• Variable pay, both short term and long term, is focused heavily on the underlying performance of the Company in delivering for our customers. Customer service is directly measured in our AVP through our B-Mex, C-MeX and D-MeX ratings (Ofwat's customer experience and delivery ratings). • In the LTVPS, half of the scorecard is focused on delivering against our AMP7 customer commitments. • The Remuneration Committee may exercise its discretion on remuneration outcomes to take account of customer experience.	• Executive pay decisions are made against the context of the wider workforce – for example, one of the main reference points the Committee uses for setting salaries is the percentage increase across the business. • Where we feel it is appropriate, employee metrics are included in the variable pay schemes. For example, in FY 24 we have included the percentage of female senior managers as a metric.	• Our remuneration framework is built around our 5-year regulatory cycles. At the time of each AMP determination we look closely at our Remuneration Policy to ensure it most appropriately incentivises delivery of commitments under the AMP, but without taking undue risks. • Hence, the majority of the AVP and LTVPS scorecards are directly connected with the delivery of the regulatory determination for the current AMP7 period, around which all our business plans are based. • The Remuneration Committee may exercise its discretion on remuneration outcomes taking into account wider business performance, which can include regulatory breaches.

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

Section 3: Summary of Remuneration Policy for 2023–25

The AMP7 Remuneration Policy was approved by the Glas Members at the AGM held on 7 July 2023, 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 typically applied with effect from 1 April. Salary reviews will reflect: • Role, experience and performance • Wider economic conditions. • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector	Annual increases generally linked to those of the wider workforce, though the Remuneration Committee retains 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 may be eligible for private health cover and 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.	All employees, including Executive Directors, are entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance. If the maximum employer contribution rate for the wider workforce changes then this new rate would also apply to Executive Directors. 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. 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 maximum cash allowance is equivalent to the employer contribution of 11% of salary less employer NI contribution.	None.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
AVP	To incentivise the annual delivery of stretching targets and delivery of strategic goals.	AVP targets are 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. Awards earned are paid as cash, are not pensionable, and are subject to clawback provisions (see details on page 142). AVP awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved, including to reflect the experience of customers. The AVP rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.	Maximum AVP potential of 100% of salary, for the achievement of stretching performance targets.	Measures are selected by the Committee each year with at least 80% of the award based on Customer and Operational measures aligned to regulatory measures contained within our Business Plan.
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 5-year period of AMP7. Interim payments are made on an annual basis, normally capped at the overall target opportunity for the year, unless the Committee determines otherwise. LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee to better align with the performance achieved, including to reflect the experience of customers. Awards are subject to clawback provisions (see details on page 142). The LTVPS rules allow the Committee to defer the payment of any awards until the completion of an ongoing investigation.	The maximum potential award for the Chief Executive is 500% of salary over the 5-year regulatory period (to a maximum potential award of 100% per annum). For other Executive Directors, the maximum potential award is 300% of salary over the 5-year regulatory period (to a maximum potential award of 60% per annum).	Unless the Remuneration Committee determines otherwise, 50% based on Totex performance and 50% based on a range of performance development measures relevant to achieving the Company's long-term goals and aligned to regulatory measures contained within our Business Plan.

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Non-Executive Directors' Fees	To provide an appropriate level of 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. Separately, the Executive Directors and the Chair approve the fees payable to the Non-Executive Directors. The Company may make a payment in respect of any associated tax liability where this is considered to be appropriate.	Non-Executive Directors receive a base fee. Additional fees may be paid to reflect additional time commitments and/or responsibilities, for example to the Senior Independent Director and to Committee Chairs.	Annual Review.

The elements of the Remuneration Policy which address Executive Directors joining and leaving the Board are set out in the 2023 Annual Report, which is available at dwrcymru.com/glascymrureports.

Clawback provisions

The Committee may claw back AVP and/or LTVPS awards in the following circumstances:

- Material misstatement or a calculation error in assessing any Glas Cymru Group (Group) member company's results.
- Material failure of risk management in any Group member company or a relevant business unit.
- Gross misconduct or reputational damage caused to Dŵr Cymru (the Company) or a Group member company.
- Material corporate failure in any Group member company or a relevant business unit.

AVP awards can be clawed back either prior to the payment of the award for a particular performance year or in the following performance year.

LTVPS awards can be 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.

Section 4: Pay

Wider workforce pay

As well as being responsible for setting the Remuneration Policy for the Executive Directors and DCE members, the Remuneration Committee 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.

Fixed pay

The Annual General Salary Award is agreed with our recognised trade unions and salaries are uplifted consistently across the workforce.

For FY 24, the wider workforce had an agreement in place to award an increase in line with CPIH in December. However, in partnership with our trade unions, we agreed an increase of 6.2%, (3% lower than CPIH in December 2022) and a cost-of-living payment of £2,000. Pension benefits are aligned across the Company with all Group Personal Pension Plan members entitled to receive the same employer contribution as a percentage of salary, in line with best practice.

Variable pay

The Annual Variable Pay Scheme (AVP) (for colleagues below Executive Director level and above Band 5) and the Colleague Reward Scheme (Bands 1–5) use a number of shared key metrics – notably those linked to Customer, Performance and Expenditure. This ensures transparency and a sense of shared ownership of the targets.

The AVP for colleagues above Band 5 includes an element of opportunity based on achievement of personal objectives, as well as on the Company's performance. Maximum opportunity ranges from 10% to 60% of base salary, depending on band.

The Colleague Reward scheme, for Bands 1–5, does not include a personal element, and the level of payout is based entirely on the Company's performance against the identified metrics. The maximum opportunity under the Colleague Reward scheme is £1,500. The actual payout in respect of the FY 24 performance year is £1,000 (FY 23: £1,000).

Pay for Executive Directors

How much Executive Directors were paid for FY 24 (Audited)

		Peter Perry		Mike Davis	
		FY 24 £'000s	FY 23 £'000s	FY 24 £'000s	FY 23 £'000s
Fixed Pay	Salary	**355**	341	**281**	270
	Benefits[1]	**1**	1	**1**	1
	Other[2]	**8**	5	**8**	–
	Pension and pension accrual	**34**[3]	445[4]	**27**[5]	26[5]
	Total Fixed Pay	**398**	792	**317**	297
Variable Pay	Annual variable pay – AVP	**91**	–	**72**	–
	Long-term incentive – LTVPS	**–**	–	**–**	–
	Total Variable Pay	**91**	–	**72**	–
Total Single Figure of Remuneration		**489**	792	**389**	297
Less Defined Benefit Pension Accrual		**–**	(412)	**–**	–
Total Single Figure of Remuneration excluding DB Accrual		**489**	380	**389**	297

1 Taxable benefits relate to private health cover.

2 For both Executive Directors this represents a car allowance of £8,500. For Peter Perry, in FY 23 this represents a £5,000 car allowance.

3 The total of £34k comprises £0 Defined Benefit pension accrual (see below) and £34k pension alternative cash plan payments, equivalent to 11% of salary less Employer NIC. Peter Perry crystallised his pension benefits with effect from 1 August 2023, and so there will be no further Defined Benefit pension accruals recognised for Peter Perry from this date.

4 In FY 23 the total pension for Peter Perry, of £445k, comprised £412k Defined Benefit pension accrual and £32k pension alternative cash plan payments, equivalent to 11% of salary less Employer NIC.

The £412k was not paid in the year and relates to future pension provision in line with pension scheme rules and legislation. The figure is based on HMRC's prescribed method of valuing the Defined Benefit pension accrued in the year as a result of the increase in Final Pensionable Pay.

The presentation above includes Total Single Figures of Remuneration both including and excluding the DB pension accrual in the year, to aid understanding of users of this report and reflecting the intrinsically different nature of post-retirement benefits and other elements of Executive remuneration.

5 This represents pension alternative cash plan payments, equivalent to 11% of salary less Employer NIC.

Pensions (Audited)

Pension benefits for all employees who participated in the DCWW Pension Scheme, a defined benefit scheme, continue to increase in line with increases in their pensionable salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme in which Peter Perry participates. Peter Perry crystallised his pension benefits with effect from 1 August 2023. The pension accrued by Peter Perry during the period 31 March 2023 to 1 August 2023 (when accrual ceased) is shown below.

	Normal retirement age	Accrued annual pension at 31 March 2023	Capitalised value of accrued pension at 31 March 2023	Revalued capitalised value of accrued pension at 31 March 2023	Accrued annual pension at 1 August 2023	Capitalised value of accrued pension at 1 August 2023	Member contributions paid during the year 2024	Pension Input Amount (net of member contributions) 2024
Peter Perry	60	£224,935	£4,498,695	£4,953,063	**£230,570**	**£4,611,404**	**–**	**–**

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

Annual variable pay (AVP) – outcome for FY 24

The table below shows the performance against the targets for AVP for FY 24. 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. These values may therefore change.

Up to 100% of salary can be earned in any year by both Peter Perry and Mike Davis. Performance achieved in FY 24, under each metric against the target ranges set is shown below:

Element	Weighting	Metric	Threshold performance	Target performance	Maximum performance	FY 24 Performance achieved
Customer service	30%	C-MeX (Ranking)	6th	3rd	1st	5th
		D-MeX (Ranking)	12th	9th	6th	11th
		B-MeX (Score out of 5)	4.3	4.4	4.5	4.3
Total percentage of Salary for Customer Service			3	18	30	7.06
Operational performance	50%	**Water:** Tap water quality (CRI Score)	5.45	4.50	2.0	7.74
		Interruptions to supply (mm:ss)	16:12	08:48	08:00	23:16
		Leakage (Ml/d)	239.3	225.3	218.3	261.61
		Acceptability of Water (contacts/1000)	2.35	2.02	1.75	2.48
		Wastewater: W and WW Treatment Works compliance (%)	98.32	99.16	100	97.34
		Pollution Incidents (Incidents)	91	81	71	108
		Internal sewer flooding (Incidents)	217	210	203	201
Total percentage of Salary for Operational Performance			5	30	50	6.25
Strategic Goals	20%	PR24 preparation	Achieved	Exceeded	Outstanding	Outstanding
		Km of river improved	170	294	418	345
		Credit Rating performance	1 notch downgrade	Negative outlook	Current Ratings	Negative outlook
		% of female senior managers	26	29	32	24
Total percentage of Salary for Strategic Goals			2	12	20	12.46
Total percentage Award Achieved						25.77

The overall performance achieved for FY 24 in the Executive Directors' AVP was 25.77%. This level of performance resulted in total awards to the Executive Directors of:

Peter Perry: £91,364.62 (25.77% of salary) paid in July 2024.

Mike Davis: £72,412.75 (25.77% of salary) paid in July 2024.

Further information on target setting process

Variable pay at Welsh Water is an important component of the remuneration package. Philosophically, the concept of variable pay is that executives are expected to have a reasonable chance of achieving a payout of at least threshold, noting our relative benchmark position on salaries.

The ranges set out for each metric under the AVP are set on an individual basis by the Remuneration Committee, taking into account a range of factors. Set out below are the principles taken into account by the Committee in relation to each of the areas of the AVP.

Customer Service Metrics

All customer service metrics are set by reference to historic performance. Threshold performance in FY 24 was based on the prior year scores with target and stretch both being an improvement on prior years.

Operational Goals

In relation to the Operational Goals (i.e. those connected directly to the AMP 7 Final Determination), the factors taken into account included but were not limited to:

1. Prior year performance – in FY 24 no thresholds were below FY 23 baseline performance.
2. Internal plans – which would typically inform the on-target level of performance.
3. The Ofwat Final Determination – in FY 24 the stretch targets were aligned with the Final Determination.

Strategic Goals

Strategic Goals are set each year to align to a range of core additional organisational priorities. For each metric the Remuneration Committee will review the threshold, target and stretch performance required, with a view to ensuring that these provide a proportionate degree of challenge to the potential award available.

Long-term variable pay (LTVPS) – outcome for FY 24

Under the LTVPS for the period 2020 to 2025, performance is assessed annually against interim goals. Interim payments are made up to 60% of maximum for each of the two elements: Totex performance; and Overall ODI outcomes for performance development measures. Overall performance is assessed over the five-year period of the AMP. This could result in payment or recovery of any under or overpaid amounts in the final year.

For FY 24, the performance achieved for each target was as shown below. The overall performance achieved was below the threshold levels for both elements and therefore no amounts are payable to the Executive Directors in respect of FY 24.

Element	Weighting	Threshold level of performance (10% achievement)	Target level of performance (60% achievement)	Maximum level of performance (100% achievement)	Performance achieved	Percentage of element earned
Totex Performance	50%	£643m	£614m	£599m	£683m	–
Overall ODI outcomes for performance development measures	50%	£(3.4)m	£(2.0)m	£2.6m	£(6)m	–
Total (as percentage of maximum award)						–

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

Details of the performance achieved for each of the performance development measures which contributed to the overall LTVPS assessment for FY 24 are as follows:

Measure	CEO CFO	Threshold level of performance (5% achievement) (3% achievement)	Target level of performance (30% achievement) (18% achievement)	Maximum level of performance (50% achievement) (30% achievement)	Performance achieved	Outcome Delivery Incentive (ODI) £m
Continuous service measures	Units					
Acceptability of drinking water	Contacts per 1,000 population	2.56	2.48	1.75	2.48	(1.8)
Water mains bursts	# per 1,000km of Mains	130.80	130.5	133.1	146.2	(1.3)
Lead supply pipes replaced	Number	5,600	5,600	5,600	2,981	–
Leakage	%	8.8	11.7	11.7	(15.9)	(5.6)
Sewer collapses	# per 1,000km of Sewer	7.2	7.2	7.2	5.96	–
Community education	Individuals	73,000	74,000	74,000	87,685	0.00
Visitors to recreational facilities	Individuals	720,000	775,000	775,000	1,034,101	0.3
Per capita consumption	%	2.1	3.4	4.0	(3.4)	(1.6)
Investment programme measures						
Km of river improved	Km	25	25	160	345	4.3
Surface water removed from sewers	Roof equivalents	862,150	862,150	862,150	–	(0.3)
Combined sewer overflow storage systems	m3	13,500	13,500	13,500	–	–
Delivery of reservoir enhancement programme	Sites	17	17	17	21	–
Delivery of zonal studies programme	Zones	N/A	N/A	N/A	N/A	–
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	Delivered	–
Delivery of the Company's South Wales Grid water supply resilience scheme	% complete	95	95	95	19	–
Total		(3.4)	(2.0)	2.6	N/A	(6.0)

The measures in the table above with "N/A" for performance in the year reflect commitments to ensure we deliver our capital programmes on time, where there were no outputs scheduled for FY 24.

Fees for Chair and Non-Executive Directors (Audited)

	Total fees £'000	
Non-Executive Directors	**FY 24**	**FY 23**
Alastair Lyons	**237**	228
Graham Edwards[1]	**23**	75
Joanne Kenrick[1]	**78**	63
Debra Bowen Rees	**66**	63
Tom Crick	**66**	63
Jane Hanson	**73**	63
Lila Thompson[2]	**63**	35
Barbara Moorhouse[3]	**71**	13

1 Graham Edwards was Senior Independent Director until he left the Board on 7 July 2023, when Joanne Kenrick became Senior Independent Director. The fees shown reflect this.

2 Lila Thompson joined the Board on 6 September 2022. She was atually paid £64,000 in FY 24 which included a £1,000 underpayment in respect of FY 23

3 Barbara Moorhouse joined the Board on 16 January 2023.

No Non-Executive Director received any benefits or additional remuneration above their base fees. They are, nevertheless, entitled to reimbursement of travel and accommodation expenses incurred in performance of their duties, in line with the Group's normal policies.

No payments were made in FY 24 to past directors, including any payments for loss of office.

Section 5: Pay decisions for FY 25

Pay for Executive Directors

£	Base salary FY 25	Base salary FY 24
Peter Perry	**£369,430**	£354,539
Mike Davis	**£292,798**	£280,996

Base salary

When reviewing Executive salaries, the Committee considered the proposed increases for the wider workforce and business and individual performance in FY 24. The Committee decided to accept the recommendation of the Executive Directors that it would be appropriate to award members of the Dŵr Cymru Executive team the same increase as the wider workforce. The wider workforce had an agreement in place to award an increase in line with CPIH in December 2023. The DCE members were, therefore, also awarded a 4.2% increase. All increases were effective from April 2024.

Benefits and pension

Benefits and pension arrangements will not change for FY 25, with the exception that the car allowance for the Executive Directors will be increased with effect from 1 April 2024. The Committee reviewed the car allowance level for the Executive Directors in March 2023, and found that this was well below market rate. It was therefore increased in two stages, with effect from 1 April 2023 and again in April 2024, bringing the car allowance to £12,000 per annum.

All employees, including Executive Directors, are entitled to a maximum pension contribution of 11% of salary. Eligible employees have the opportunity to opt out and receive a cash allowance equivalent to 9.7%. Benefits in the year will also include private health insurance.

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

Annual variable pay

For FY 25 annual variable pay of up to 100% of salary may be earned, based on performance achieved. The performance measures used in the Operational Performance section have been aligned with the measures included in the Service Commitment Plan submitted to Ofwat. The Committee has also reviewed the weightings of each metric in the light of the Company's internal priorities and regulatory expectations. As a result, it has allocated 35% of the total AVP potential directly to performance under environmental measures (namely pollution incidents, waste water compliance, leakage and km of river improved), with 20% of this based on pollution incidents.

A more detailed breakdown of the measures and their weightings for FY 25 is set out below.

	Customer Service	Operational Performance	Strategic Goals
Measures (percentages are as proportion of the total under that area)	• C-MeX (18.8%)* • B-MeX (5.6%)* • D-MeX (5.6%)* * Ofwat's measures of customer service for household, business, and developer customer satisfaction, respectively.	• Water quality compliance (5%) • Interruptions to supply (5%) • Leakage performance (5%) • Mains repairs (5%) • Treatment works compliance (5%) • Category 1 & 2 Pollution incidents (10%) • Category 3 Pollution incidents (10%) • Per Capita Consumption (5%)	• PR24 finalisation and AMP8 readiness (5%) • Sustainability (km of river improved) (5%) • Credit rating performance (5%) • Improve gender balance at senior manager level (5%)
How much of the scheme?	30%	50%	20%

Long-term variable pay scheme

The LTVPS will continue to be measured under the 2020-25 five-year plan and be based on:

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

Fees for Chair of the Board and Non-Executive Directors

The fees payable to the Chair of the Board were reviewed in March 2024 and the Committee (in the absence of the Chair of the Board) resolved that the Chair of the Board's fee should be increased by 4.2% in line with the Executive Directors.

In March 2024, the Chair of the Board and the Executive Directors reviewed the fees for the Non-Executive Directors and resolved that the base fee should be maintained at £63,376, whilst increasing the fees for chairing the board committees by £2,500 per committee. This completes the realignment of our Non-Executive Director fee structure to bring the fees for committee chairs (which were introduced last year for the first time) to market rates.

Fees for FY 25 will be as follows (all figures are £):

Role	Fee FY 25	Fee FY 24
Chair of the Board	**247,282**	237,315
Non-Executive Directors' base fee	**63,376**	63,376
Fees for additional Board responsibilities (added to the NED base fee)		
Senior Independent Director	**10,000**	10,000
Audit Committee Chair	**12,500**	10,000
Quality and Safety Committee Chair	**12,500**	10,000
Remuneration Committee Chair	**10,000**	7,500
Environment, Social and Governance (ESG) Committee Chair	**5,000**	2,500
Technology Committee Chair	**5,000**	2,500

Section 6: Other important information

Workforce pay across DŴR Cymru

CEO pay ratio

This is the fifth 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 for employees. In order to calculate the ratio we have applied Methodology A from the UK Government guidance, which the Committee considers is the most accurate and robust method.

Year	Methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
FY 24	**A**	**14:1**	**11:1**	**8:1**
FY 23*	A	11:1	8:1	7:1
FY 22	A	19:1	15:1	12:1
FY 21	A	28:1	23:1	18:1
FY 20	A	22:1	18:1	14:1

The median ratio this year represents an increase from last year. This is mainly due to the CEO not receiving any variable pay for FY 23. Further factors include the 4% pay increase awarded to the CEO, which was 2.2% less than the increase awarded tp all employees in April 2023. This was slightly offset by an increase to the CEO's car allowance.

*If the CEO had received the variable pay in line with the formulaic outcome outlined on page 144, the CEO Pay Ratio would have been:

Year	Methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
FY 23	A	16:1	12:1	10:1

The 25th percentile, median, and 75th percentile employees were determined using total pay for the year ended 31 March 2024 for all employees as at 31 March 2024. Pay details for the individuals on a full time-time equivalent basis are set out below:

FY 24	25th percentile pay	Median pay	75th percentile pay
Total pay	**35,030**	**46,227**	**59,170**
Salary	**28,105**	**28,540**	**47,251**

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 the necessary skills and talent.
- The variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2024.
- New hire salaries and annual variable payments have been altered to reflect a full-time equivalent.
- Part time salaries and annual variable payments, including cost-of-living payments have been altered to reflect a full-time equivalent.
- Defined Benefit Pension accrual has been excluded for both the CEO and the wider workforce. This is due to the significant variation in the accrual for the CEO which affects the ratio and is not representative for a comparison in remuneration for the year between the CEO and our employees. The defined benefit accrual figures for the wider workforce are also not included as they are not available.

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

Gender pay gap

The Gender Pay Gap is defined as the overall gender pay and bonus gap when looking at the mean and median of each gender (calculated using hourly rates of pay at the snapshot date of 5 April 2023 and bonuses paid in the year to 5 April 2023) regardless of role or seniority. It is encouraging that our gender pay gap remains significantly lower than the national average. Our Gender Pay Gap Report (see link below) highlights the key initiatives we are undertaking to promote diversity and inclusivity at Dŵr Cymru.

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 Sustainability Progress section and the equality for all case study on page 10.

Definitions

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

Mean pay gap – The difference between the mean of men's pay and the mean of women's pay.

The median pay gap increased from 3.6% in 2022 to 4.8% in 2023, and the mean gap reduced from 6.0% in 2022 to 5.6% in 2023.

For our Senior Management population our median gap was 2.1% and our mean gap was 7.0% in 2023.

As regards bonuses, the majority of our employees receive the fixed amount Colleague Reward payment and during the capture year also received a cost-of-living payment. The midpoint for each gender falls within the numbers of colleagues who receive the Colleague Reward payment, and as this was a fixed payment, there is no difference between men and women when calculated on a median basis. As a result, and as in previous years, there continues to be no median bonus gap. The mean bonus gap reflects the higher proportion of men occupying the most senior positions in the Company where variable pay opportunities are higher. For this reporting year the mean bonus gap increased to 11.1%.

Our full report is available for reading on our website at dwrcymru.com/genderreport.

Ethnicity pay gap

The Ethnicity Pay Gap is yet to become a statutory reporting item. The calculations show the difference in the average hourly pay rate between employees that identify as white and those that identify as being an ethnic minority.

79.8% of the workforce have declared their ethnicity status and we have used this data to calculate the Ethnicity Pay Gap 2023. Of this population, 3.9% of colleagues describe themselves as being Black, Asian ot Other Ethnic Minority, 95.7% of colleagues describe themselves as White British or Irish or Other White and 0.4% stated that they would prefer not to say.

Based on this data, results are:

Mean Ethnicity Pay Gap 5.68%

Median Ethnicity Pay Gap 3.47%

Annual change in pay for Board Directors and all employees

The following table sets out the change in the remuneration paid to Board Directors for the last four financial years compared with the average percentage change for Dŵr Cymru employees:

	Percentage change FY 24 vs FY 23			Percentage change FY 23 vs FY 22			Percentage change FY 22 vs FY 21			Percentage change FY 21 vs FY 20		
	Salary/ fees	Taxable Benefits	Annual Bonus	Salary/ fees	Taxable Benefits	Annual Bonus	Salary/ fees	Taxable Benefits	Annual Bonus	Salary/ fees	Taxable Benefits	Annual Bonus
Executive Directors												
Peter Perry	4.0	–	100	2.8	–	(100)	2.0	(5.1)	(19.7)	2.0	(2.3)	(6.3)
Mike Davis	4.0	–	100	2.8	(70.5)	(100)	2.0	(5.1)	(19.7)	2.0	22	51.7
Non-Executive Directors												
Alastair Lyons	4.0	–	–	2.8	–	–	–	–	–	–	–	–
Graham Edwards	(69.4)	–	–	2.8	–	–	–	–	–	–	–	–
Joanne Kenrick	23.4	–	–	2.8	–	–	–	–	–	–	–	–
Jane Hanson	15.8	–	–	2.8	–	–	–	–	–	–	–	–
Debra Bowen Rees	3.9	–	–	2.8	–	–	–	–	–	–	–	–
Tom Crick	3.9	–	–	2.8	–	–	–	–	–	–	–	–
Lila Thompson	74.8	–	–	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Barbara Moorhouse	420.7	–	–	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
John Warren	N/A	N/A	N/A	N/A	N/A	N/A	–	–	–	–	–	–
All employees												
Average Dŵr Cymru Employee	9.5	–	–	7.9	–	1.5	4.5	–	1.0	4.5	–	4.1

How does the Chief Executive's pay compare to previous years?

	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24
Total remuneration for Chief Executive (£'000)	974	746	629	679	607	685	892	675	792	**489**
Total CEO remuneration net of pension accrual (£'000)	690	604	629	601	624	678	555	602	380	**489**
Annual variable pay outcome (%)	79	70	75	65	67	60	50.%	40	nil	**26**
Long-term plan outcome (%)	91	65	65	27	25	19	23.1	30[1]	nil	**nil**

1 As this is an interim payment on account of the performance achieved during the period of the AMP, the pay-out is capped at 30%.

How does the total spend on Executive pay and total staff pay compare to other expenditure?

			Change	
£m except percentages	**FY 23**	**FY 24**	**£m**	**%**
Total expenditure	826.4	**876.4**	50.0	6.1
Employee remuneration costs	167.4	**176.8**	9.4	5.6
Customer return of value	12.0	**14.0**	2.0	16.7
Executive Director remuneration costs	1.1	**0.9**	(0.2)	(18.0)

CORPORATE GOVERNANCE REPORT
CONTINUED

5 Remuneration Committee report – continued

Board Directors' service contracts and letters of appointment

The effective dates of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2024 are as follows:

Alastair Lyons 1 May 2016	**Joanne Kenrick** 1 November 2015	**Tom Crick** 1 October 2017	**Debra Bowen Rees** 1 January 2020
Jane Hanson 1 January 2021	**Peter Perry** 1 Aoril 2020	**Lila Thompson** 6 September 2022	**Mike Davis** 1 January 2020
Barbara Moorhouse 16 January 2023			

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

Summary of Member votes on the Remuneration Policy and Annual Report on Remuneration

Members approved the Remuneration Policy for AMP7 at the 2020 AGM, and last approved the Annual Report on Remuneration at the 2023 AGM with the votes as follows:

	Vote for
Members (present in person or by proxy) who voted in favour of the Annual Report on Remuneration – 2023 AGM	97%
Members (present in person or by proxy) who approved the Directors' Remuneration Policy for 2020–2025 – 2023 AGM	97%

DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2024.

The performance review of the Group can be found within the Strategic Report on pages 14 to 91. This, together with earlier sections of the report, provides detailed information relating to the Group, its business model and longer-term strategy, the operation of its businesses, future developments and the results and financial position for FY 24. The Corporate Governance Report set out on pages 92 to 153 is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's process for addressing the principal risks and uncertainties facing the Group are set out in the Risk Management section from pages 56 to 66.

Financial performance

The Group is in a strong financial position at 31 March 2024. Gearing remains in line with the Board's target range at 60%, and we have retained our strong credit ratings. Read more within the Chief Financial Officer's Review at pages 24 to 29.

Dividend policy

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

Dŵr Cymru Cyfyngedig – Appointed Business

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

In line with this Policy, intra-Group dividends totalling £30.2 million were paid in 2016–2017. No further intra-Group dividends have been paid since then and none are expected to be paid in the foreseeable future.

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

Financial instruments

Financial risk management and information on financial instruments is covered within Notes 1, 15 and 16 to the Financial Statements found at page 157.

Research and development

With the support of our customers, regulators, and governments alike for improved services and reducing our carbon and environmental footprint, we continue to look for better ways of working and advances in technology. We have made good progress delivering the agenda set out in our Innovation Strategy, with links to over 100 academic and other institutions, technology specialists, and global innovation concerns. For details on our investment and research into technical and innovation projects see page 77 of our Strategic Report.

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 105.

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. Information on the Board's methods for engaging with the workforce is on pages 52 and 107.

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 54 to 55.

Corporate governance

During FY 24 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 and 107.

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. A payment of £30,000 was made during FY 24 to Step Change to support the work the charity does in providing debt advice to our customers.

We are disclosing this payment as this organisation also campaigns for government policy change, including on debt issues. However, none of the funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made in FY 23 or FY 24 which would require disclosure under section 366 of the Companies Act 2006.

WaterAid

As appropriate for a Company with our corporate structure, we do not engage in corporate sponsorship. However, we continue to support WaterAid the international not-for-profit determined to make clean water, decent toilets and good hygiene normal for everyone, everywhere within a generation.

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 registered certain registrable relevant legal entities (RRLEs) within the 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 page 48 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 FY 24

Deloitte LLP acted as Auditor to Glas Cymru Group (the Group) for the accounts for the year ended 31 March 2024. As part of the audit process we confirmed that, as far as each Director is aware, there is no relevant audit information of which the Auditors are unaware, that the Directors have taken any necessary steps to make the Auditor aware of any such information and to establish that the Group's Auditor is aware of that information. We confirm that to the best of our knowledge:

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

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

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

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

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as Auditor of the Group will be put to the Members at the forthcoming AGM.

Human rights

We are committed to respecting human rights in relation to colleagues and our supply chain (see page 75 for information on our Sustainable Procurement Policy, Supply Chain Compliance Standards, and Anti-Slavery Policy). Our internal Code of Conduct is supported by several Group policies including Anti-bullying and Harassment, Whistleblowing, Anti-bribery and Corruption, and Anti-Fraud.

Data protection and information security

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

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 Chief Financial Officer's Review on pages 24 to 29.

Annual General Meeting (AGM)

The Glas Cymru AGM will be held on Friday 5 July 2024.

Going concern

The financial statements for FY 24 have been prepared on the going concern basis. For the Directors' Going Concern Statement and detail of why the Going Concern assumption is considered appropriate (see page171).

By order of the Board

Nicola Foreman

Company Secretary

6 June 2024

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 for each financial year, in accordance with applicable law and regulations.

They have elected to prepare the Group and Parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

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

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

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

The Directors have decided to prepare voluntarily 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 to provide the information necessary for stakeholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Nicola Foreman

Company Secretary

6 June 2024

FINANCIAL STATEMENTS

Contents

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLAS CYMRU HOLDINGS CYFYNGEDIG

1. Opinion

In our opinion:

- the financial statements of Glas Cymru Holdings Cyfyngedig (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2024 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards 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.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in reserves;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 28 of the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of the provision of household and non-household trade receivables in Dŵr Cymru Cyfyngedig; and • Classification of capital programme expenditure in Dŵr Cymru Cyfyngedig

Materiality	The materiality that we used for the Group financial statements was £12.0m (2023: £12.0m) which was determined on the basis of total assets, equating to 0.15% (2023: 0.14%) of total assets.
Scoping	Our scoping has resulted in over 99% (2023: over 99%) of Group's revenue, 99% (2023: 99%) of loss before tax and 99% (2023: over 100%) of total assets, being subject to audit testing.

4. Conclusions relating to going concern

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

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

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

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

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

5.1 Valuation of the provision of trade receivables in Dŵr Cymru Cyfyngedig

Key audit matter description	Dŵr Cymru Cyfyngedig supplies water to residential and business customers within Wales and parts of England and the provision for impairment of receivables represents the portion of customers who do not, or cannot, pay their bills. Management estimates the expected credit loss for their receivables when calculating the appropriate level of bad debt provision. As at 31 March 2024, the provision recorded was £84.2 million (2023: £80.7 million) which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to Dŵr Cymru Cyfyngedig. The provision for trade receivables at Dŵr Cymru Cyfyngedig is based on the historical cash collection of debt invoiced to measured and unmeasured customers over the prior three years, which is considered by management to be representative of the collection risk on the receivables population. The provision is subsequently adjusted for future economic conditions, for which management have considered expected movements in household disposable income and unemployment rates. The key audit matter is focussed on the appropriateness of the assumption that cash collection rates over the prior years is a reasonable expectation for the determination of lifetime expected credit losses under IFRS 9 Financial Instruments. The bad debt provision is discussed in note 1 of the financial statements as an accounting judgement and an accounting estimate. The accounting judgement is in relation to the collective impairment losses on receivables with similar credit risk being calculated using cash collection rates on measured and unmeasured receivables. The accounting estimate relates to the probability of failing to recover a debt and is based on expected credit loss, determined by past experience and expected future movements in cash collection rates. The Audit Committee also considered this as a significant area of focus as discussed in the Audit Committee Report on page 121. The bad debt provision is discussed in note 11 to the financial statements. Management has included this as a source of estimation uncertainty in note 1 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: • obtaining an understanding of relevant controls over the determination of the bad debt provision, including controls over the supporting data and assumptions; • testing the completeness and accuracy of the data included within the bad debt provision calculation; • testing the allocation of cash received in the current year to debt within the last three years; • testing the debtor ageing for each debt category; • evaluating the reasonableness of economic data used within the calculation; • evaluating management's assumptions used in the calculation of the bad debt provision and challenge whether this represents lifetime expected credit loss, including use data analytics to calculate the cash collection rates in the last year using source data from the billing system; and • assessing the appropriateness of the disclosures provided relating to the key assumptions, and the range of sensitivities disclosed.

Key observations	We are satisfied that the assumptions applied in assessing the expected credit losses, are reasonable and that Dŵr Cymru Cyfyngedig's bad debt provision has been appropriately calculated using relevant data, in accordance with IFRS 9 Financial Instruments.

5.2 Classification of capital programme expenditure in Dŵr Cymru Cyfyngedig

Key audit matter description	Dŵr Cymru Cyfyngedig has a substantial capital programme which is agreed with the regulator ('Ofwat') at the beginning of each asset management plan (AMP), and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure assets and operational structures . During the year, Dŵr Cymru Cyfyngedig has invested £520 million (2023: £420 million) of capital in water and wastewater assets as part of the AMP 7 planned investment programme. The investment is split between capital additions of £341 million (2023: £287 million) which are added to the balance sheet, and infrastructure renewals expenditure of £101 million (2023: £78 million) which are maintenance costs fully expensed to the income statement. The residual balance of capital investment includes adopted assets of £162million (2023: £109 million) and capitalised interest of £17 million (2023: £25 million). Included in capital additions of £341 million is £84 million (2023: £78 million) of people costs capitalised. As the determination of whether expenditure is capitalised or expensed in the period directly affects the group's reported financial performance, we identified a key audit matter relating to the overstatement of capital expenditure. There is a high degree of judgement involved in determining whether costs, including employee and other internal expenditure, meet the relevant criteria for capitalisation and therefore are included in the carrying value of Property, Plant and Equipment ('PPE'), or alternatively should be expensed immediately. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of the overheads capitalised, which largely comprises people cost of £84 million (2023: £78 million). A risk has also been identified in the judgement in determining whether costs, both initial and subsequent expenditure, meet the relevant criteria for capitalisation and therefore are included in the carrying value of PPE, or alternatively should be expensed immediately. The Audit Committee also considered this as a key judgement as discussed in the Audit Committee report on page 121. Further details are included within the critical accounting judgements note in note 1 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: • obtaining an understanding of relevant controls over the classification of capital programme expenditure; • testing a sample of costs to check whether the costs are in respect of enhancements to assets; • evaluating the appropriateness of the accounting treatment for capitalising overheads which comprises people costs by reference to the requirements of IAS 16 'Property, Plant and Equipment' and assessing the policies, procedures and assumptions used in estimating the value of people related costs that are directly attributable to capital projects; and • challenging management's methodology and estimate through considering whether there are alternative appropriate assumptions.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

Key observations	We are satisfied that costs capitalised are in respect of enhancements to the assets and that the assumptions made in respect of capitalisation of people related costs are reasonable.

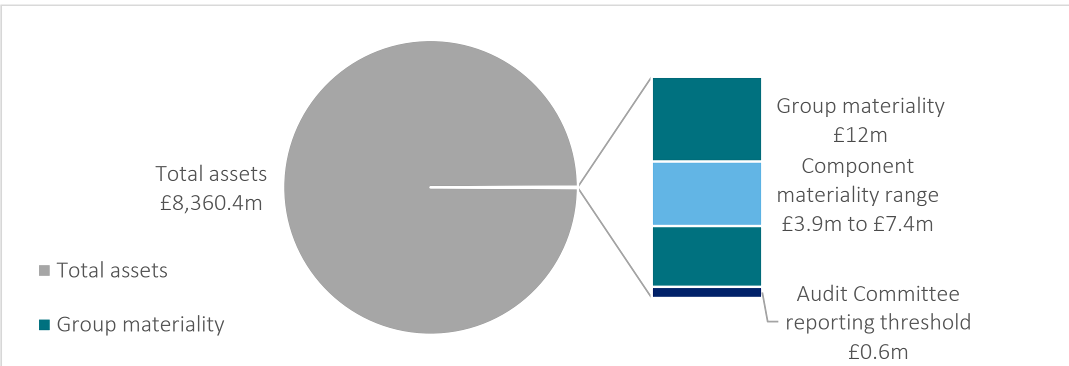
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£12.0 million (2023: £12.0 million)	Materiality £5.3 million (2023: £8.4 million)
Basis for determining materiality	The current year Group materiality has been established with regards to a number of metrics and equates to 0.15% (2023: 0.14%) of Total Assets.	We determined the parent company materiality with regards to a percentage of net assets (0.15% - 2023: 0.20%).
Rationale for the benchmark applied	We consider total Assets to be the most appropriate benchmark on which to determine materiality. The Group is primarily an infrastructure Group that generates revenues almost entirely through using its assets. Given the group's revenues are to a large extent regulated by Ofwat we assess that, aligned to the key focus of the Group on the maintenance and investment in the assets it owns and operates, the asset base is the appropriate benchmark.	The parent company does not trade or exist for profit generating purposes, so materiality has been determined using net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	65% (2023: 75%) of Group materiality which equates to £7.8 million (2023: £9.0 million)	65% (2023: 75%) of parent company materiality which equates to £3.4 million (2023: £6.3 million)
Basis and rationale for determining performance materiality	The factors we considered in setting performance materiality included: • the audit of 2024 is our first year of auditing the group and its subsidiaries; • the quality of the control environment and whether we are able to rely on internal controls in our substantive testing; and • the number and value of uncorrected misstatements identified in previous audit identified by the predecessor auditor in the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6 million (2023: £0.6 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The Regulated Water and Wastewater segment is primarily comprised of Dŵr Cymru Cyfyngedig which was subject to a full scope audit using materiality of £7.4 million (2023: £12.0 million) Of the Group's four (2023: 12) reporting components, we subjected three(2023: three) to full scope audits for Group purposes. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

This represented 99% (2023: over 99%) of Group's revenue, 99% (2023: 99%) of loss before tax and 99% (2023: over 100%) of Total Assets, being subject to audit testing.

At the group level we also tested the consolidation process and carried out analytical procedures at an aggregated Group level to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

7.2 Our consideration of the control environment

The group uses SAP as a financial accounting software platform. With the involvement of our information technology specialists, we obtained an understanding of relevant General Information Technology Controls within the group's financial accounting software platform and supporting applications, systems and tools, including access controls, change management controls and controls around segregation of duties. We were unable to place reliance on the relevant IT systems due to findings within the General Information Technology Controls. Accordingly, a fully substantive audit was performed.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements. We have evaluated management's documentation regarding the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Financial Statements. Whilst management

INDEPENDENT AUDITOR'S REPORT
CONTINUED

has acknowledged the risks posed by climate change, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2024 as disclosed in note 1 of the Financial Statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the company's account balances and classes of transactions and did not identify any additional reasonably possible risks of material misstatement as a result of climate change. We also deemed that climate-related risks have no significant impact on our key audit matters. Our procedures were performed with the involvement of climate change and sustainability specialists and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit and evaluating whether appropriate disclosures have been made in the Financial Statements.

With the involvement of our Environmental, Social and Governance ('ESG') specialists, we:

- evaluated the financial statement disclosures to assess whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate change-related statements (as disclosed in the Strategic Report) and considered whether the information included in the narrative reporting is materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- management's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, treasury & pricing, IT, and ESG regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- valuation of the provision for household and non-household trade receivables in Dŵr Cymru Cyfyngedig; and
- Classification of capital programme expenditure, specifically people costs, in Dŵr Cymru Cyfyngedig

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, tax legislation.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the license conditions imposed by The Water Services Regulatory Authority (Ofwat), Environment Agency, Drinking Water Inspectorate, National Rivers Authority, Natural Resources Wales, GDPR and health and safety

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the provision for household and non-household trade receivables in Dŵr Cymru Cyfyngedig as a key audit matter related to the potential risk of fraud The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat, and other relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinions on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the requirements of the Companies Act 2006 that would have applied were the company a quoted company.

14. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors’ statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 155;
- the directors’ explanation as to its assessment of the group’s prospects, the period this assessment covers and why the period is appropriate set out on pages 67 to 71;
- the directors' statement on fair, balanced and understandable set out on page 156;
- the board’s confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 58;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 122; and
- the section describing the work of the audit committee set out on pages 121 to 125.

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

15.2. Directors’ remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors’ remuneration have not been made or the part of the directors’ remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

16. Use of our report

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

Delyth Jones

Delyth Jones FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
Cardiff, United Kingdom

7 June 2024

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH

Continuing activities	Note	2024 £m	2023 Restated £m
Revenue	2	**927.9**	843.8
Operating costs:			
Operational expenditure	3	**(370.3)**	(376.1)
Impairment of trade and other receivables	3	**(28.3)**	(24.8)
Other operating income	3	**5.2**	5.3
Exceptional item	3	**–**	(30.8)
Infrastructure renewals expenditure	3	**(101.3)**	(78.0)
Depreciation and amortisation	3	**(386.7)**	(346.8)
	3	**(881.4)**	(851.2)
Operating profit/(loss)		**46.5**	(7.4)
(Loss)/profit on disposal of fixed assets		**(0.1)**	0.3
Profit/(loss) before interest		**46.4**	(7.1)
Financial expenses:			
Financial income	4	**21.2**	14.9
Financial expenses	4	**(270.0)**	(297.6)
Fair value gains on derivative financial instruments	4	**30.1**	139.3
Settlements accruing in the year	4	**37.4**	(20.9)
Other movements on derivative financial instruments	4	**(7.3)**	160.2
		(218.7)	(143.4)
Loss before taxation		**(172.3)**	(150.5)
Taxation	5	**41.4**	25.8
Loss for the year		**(130.9)**	(124.7)

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 2024 was £1.2 million (2023: £1.5 million). The comparators for financial expenses and fair value gains on derivative financial instruments have been restated. There is no impact on the loss for the year. More information is available under note 1 to these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH

	Note	2024 £m	2023 £m
Loss for the year		**(130.9)**	(124.7)
Items that will not be reclassified to profit or loss			
Actuarial gain recognised in the pension scheme	21	**26.4**	124.5
Related deferred tax	6	**(6.6)**	(31.1)
Revaluation of property, plant and equipment	7	**141.8**	593.4
Related deferred tax	6	**(35.4)**	(148.4)
Total items that will not be reclassified to profit or loss		**126.2**	538.4
Total comprehensive (expense)/income for the year		**(4.7)**	413.7

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH

	Note	2024 £m	2023 Restated £m
Assets			
Non-current assets			
Property, plant and equipment	8	**7,303.3**	6,970.2
Intangible assets	9	**201.4**	202.6
Trade and other receivables	11	**2.2**	0.7
Other financial assets:			
– derivative financial instruments	15	**–**	4.1
– employee benefits	21	**31.6**	12.0
		7,538.5	7,189.6
Current assets			
Inventories		**7.9**	5.3
Trade and other receivables	11	**645.7**	648.6
Cash and cash equivalents	12	**167.1**	379.4
Other financial assets:			
– derivative financial instruments	15	**1.2**	5.8
		821.9	1,039.1
Total assets		**8,360.4**	8,228.7
Liabilities			
Current liabilities			
Trade and other payables	13	**(627.9)**	(685.8)
Provisions	17	**(5.4)**	(17.8)
Other financial liabilities:			
– borrowings	14	**(237.7)**	(94.7)
		(871.0)	(798.3)
Net current (liabilities)/assets		**(49.1)**	240.8
Non-current liabilities			
Trade and other payables	13	**(740.4)**	(540.8)
Employee benefits	21	**(2.6)**	–
Provisions	17	**(4.8)**	(5.4)
Other financial liabilities:			
– borrowings	14	**(4,008.7)**	(4,090.9)
– derivative financial instruments	15	**(398.6)**	(444.5)
Deferred tax – net	6	**(812.3)**	(822.1)
		(5,967.4)	(5,903.7)
Total liabilities		**(6,838.4)**	(6,702.0)
Net assets		**1,522.0**	1,526.7
Reserves			
Revaluation reserve	7	**1,696.2**	1,692.0
Retained earnings		**(174.2)**	(165.3)
Total reserves		**1,522.0**	1,526.7

The financial statements on pages 168 to 209 were approved by the Board of Directors on 6 June 2024 and were signed on its behalf by:

P Perry
Chief Executive Officer

M Davis
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

	Revaluation reserve £m	Retained earnings £m	**Total reserves £m**
At 1 April 2022	1,339.7	(226.7)	**1,113.0**
Loss for the year	–	(124.7)	**(124.7)**
Actuarial gain net of tax	–	93.4	**93.4**
Revaluation net of tax	445.0	–	**445.0**
Transfer to retained earnings	(92.7)	92.7	**–**
At 31 March 2023	1,692.0	(165.3)	**1,526.7**
Loss for the year	–	(130.9)	**(130.9)**
Actuarial gain net of tax	–	19.8	**19.8**
Revaluation net of tax	106.4	–	**106.4**
Transfer to retained earnings	(102.2)	102.2	**–**
At 31 March 2024	**1,696.2**	**(174.2)**	**1,522.0**

PARENT COMPANY BALANCE SHEET

	Note	**2024 £m**	2023 £m
Assets			
Non-current assets			
Investment in subsidiaries	10	**3,502.0**	4,095.7
Other financial assets:			
– loans to Group undertakings	11	**21.6**	21.6
		3,523.6	4,117.3
Current assets			
Trade and other receivables		**3.5**	4.0
Cash and cash equivalents	12	**12.3**	10.6
		15.8	14.6
Net assets		**3,539.4**	4,131.9
Reserves			
Retained earnings		**37.4**	36.2
Revaluation reserve	7	**3,502.0**	4,095.7
Total reserves		**3,539.4**	4,131.9

The financial statements on pages 168 to 209 were approved by the Board of Directors on 6 June 2024 and were signed on its behalf by:

P Perry
Chief Executive Officer

M Davis
Chief Financial Officer

PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

	Revaluation reserve £m	Retained earnings £m	**Total reserves £m**
At 1 April 2022	4,201.5	34.7	4,236.2
Profit for the year	–	1.5	1.5
Revaluation	(105.8)	–	(105.8)
At 31 March 2023	**4,095.7**	**36.2**	**4,131.9**
Profit for the year	**–**	**1.2**	**1.2**
Revaluation	**(593.7)**	**–**	**(593.7)**
At 31 March 2024	**3,502.0**	**37.4**	**3,539.4**

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2024 £m**	2023 Restated £m
Cash flow from operating activities			
Cash generated from operations*	18a	**380.9**	380.1
Income tax received		**0.5**	0.6
Net cash flow from operating activities		**381.4**	380.7
Cash flow from investing activities			
Interest received		**21.2**	13.4
Purchase of property, plant and equipment		**(372.4)**	(296.6)
Purchase of intangible assets		**(39.3)**	(38.6)
Proceeds from sale of plant and equipment		**–**	0.4
Grants and contributions received		**32.2**	30.5
Net cash outflow from investing activities		**(358.3)**	(290.9)
Net cash flow before financing activities		**(23.1)**	(89.8)
Cash flows from financing activities			
Loan issue costs		**(1.9)**	–
Long-term loans		**230.0**	–
Term loan repayments		**(65.4)**	(58.4)
Interest paid	18b	**(193.2)**	(128.7)
Receipts on derivative financial instruments	18c	**8.7**	49.5
Payments on derivative financial instruments	18c	**(11.8)**	(70.4)
Payment of lease liabilities		**(201.8)**	(17.5)
Net cash flow from financing activities		**(235.4)**	(225.5)
(Decrease)/increase in cash and cash equivalents	19b	**(212.3)**	(135.7)
Cash and cash equivalents at 1 April		**379.4**	515.1
Cash and cash equivalents at 31 March	12	**167.1**	379.4

* Exceptional items of £nil (2023: £30.8 million) are excluded from cash flows generated from operations, per note 18.

The comparators for interest paid and receipts/payments on derivative financial instruments have been reclassified following a change in accounting policy (see note 1). There is a £149.6m increase to net cash inflow from operating activities with a corresponding increase to net cash outflow from financing activities, there is no impact on net cash outflow for the prior year. More information is available under note 1 to these financial statements.

PARENT COMPANY CASH FLOW STATEMENT

	Note	2024 £m	2023 £m
Cash flow from investing activities			
Interest received		**1.9**	1.9
Long-term loan to subsidairy		**(0.2)**	–
Net cash flow from investing activities		**1.7**	1.9
Increase in cash and cash equivalents			
Cash and cash equivalents at 1 April		**10.6**	8.7
Cash and cash equivalents at 31 March	12	**12.3**	10.6

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies, financial risk management and accounting estimates

Accounting policies for the year ended 31 March 2024

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 UK-adopted international accounting standards ('UK-adopted IFRS'). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets, other financial assets and liabilities (including derivative financial instruments) and parent company investment 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 under IFRS requires the use of certain critical accounting estimates and 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 180.

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.

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 headroom, which stands at £485 million at 31 March 2024, further extended to in excess of £600 million post year end following a new £125 million term loan being agreed,as well as consideration of the Group's capital adequacy. The Group presently has £400 million revolving credit facilities available to use at its discretion and should the Group deem beneficial, will be utilised in part to manage operational cash flows. £80 million has been drawn as at 31 March 2024 with repayment made during May 2024. The Group's revolving credit facilities currently have a termination date of February 2027. The Board has approved a Treasury refinancing strategy, which sets out the approach to be followed to meet the Company's financing needs for the next 6 years. The Group has evaluated the present market environment and considered our AMP 8 refinancing requirement, where we will need to refinance over £3 billion. This level of liquidity is considered adequate to meet operational needs in the short term and means we would not require further funding beyond our existing revolving credit facilities until March 2026, where our next material debt repayment is due to occur.

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

The Directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the Directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the Goup's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure and a reduction in other discretionary totex spend.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

GOING CONCERN (CONTINUED)
The Directors have also assessed the potential impacts resulting from the cost-of-living crisis and interest rates presently affecting the UK, and although they generate a negative on our financials, none of these factors pose a significant concern to disclose in relation to the Group's ability to continue as a going concern.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within 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 2023:

Amendments

- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Insurance Contracts (Amendments to IFRS 17)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (IAS 12)

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

The Group and company have changed accounting policy for the classification of interest paid on the cash flow statement. Interest paid is now classified as a financing activity as this is deemed to better reflect the nature of the cash flows.

FUTURE CHANGES TO ACCOUNTING STANDARDS
At the date of approval of these financial statements, there are new Standards and Amendments, which have not been applied in these financial statements, the Directors anticipate that the adoption of 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 performance obligations delivered, excluding value added tax. Revenue is segmented into the following two income streams:

Regulated revenue relates to the provision of water, sewerage and related retail services. Revenue from customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end based on tariffs from the scheme of charges published annually. For customers who are not metered, the performance obligation is the ability to provide water and sewerage services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year and revenue is recognised on a straight-line basis over the financial year.

All water companies have a legal obligation to allow third parties to establish an authorised connection to their networks and a number of activities may be necessary in order to achieve this, giving rise to the following transactions and accounting treatments under IFRS 15:

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

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

1. Accounting policies, financial risk management and accounting estimates continued

EXCEPTIONAL ITEMS

Exceptional items are those significant items, which are disclosed separately by virtue of their size and/or nature to enable a true and fair understanding of the Group'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 an enterprise value based on shadow RCV with reference to discounted cash flow approach, the weighted average cost of capital and peer company comparatives.

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 and accordingly is deemed an appropriate measure of the fair value of its assets. 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 2024, the total value of tangible and intangible fixed assets has been revalued to the 'shadow RCV' of Dŵr Cymru Cyfyngedig, being the 31 March 2024 RCV published by Ofwat in its PR19 Final Determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

Property, plant and equipment comprise:

a. Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
b. Other assets (including properties, over ground operational structures and equipment, and fixtures and fittings).

INFRASTRUCTURE ASSETS

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

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

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 35 to 150 years, with a small number representing approximately 4% of the total number of infrastructure assets falling outside of this range.

OTHER ASSETS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

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

ADOPTED ASSETS
Adopted assets at no cost compromise principally sewers. They are recognised as additions at fair value and depreciated on a straight-line basis over an estimated useful economic life of 50 years.

INTANGIBLE ASSETS
Intangible assets principally comprise computer software and related system developments. Intangible assets are initially 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.

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 7 and 20 years. These asset lives are reviewed annually.

LEASES
At inception of a contract the group assesses whether a contract is, or contains, a lease. Where a lease is present, a right-of-use asset and lease liability is recognised at the commencement date. The lease liability is measured at the present value of future lease payments due over the term of the lease, with the right-of use asset recognised as property, plant and equipment at cost. This is generally equivalent to the initial measurement of the lease liability.

Lease payments are discounted using the interest rate implicit in the lease or, if that is not readily available, the group's incremental rate of borrowing. Generally, the Group uses its incremental borrowing rate as the discount rate. After the commencement date, the lease liability is increased for the accretion of interest (being the unwinding of the discounting applied to future lease payments) and reduced by lease payments made. In addition to this the carrying amount is updated to reflect any remeasurement or lease modifications. Remeasurements are typically required as a result of rent reviews or changes to the lease term. In these cases a corresponding adjustment to the right-of-use asset is made.

Depreciation of right-of-use assets is charged on a straight-line basis over the term of the lease. Where leases have a term of less than 12 months from the commencement date and do not have a purchase option, the group applies the short-term lease recognition exemption available under IFRS 16. The group applies the low value recognition exemption permitted by the standard to leases of assets with a value of less than £2,500. Payments for short-term and low value leases are instead charged to operating costs on a straight-line basis 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.

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

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. 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.

1. Accounting policies, financial risk management and accounting estimates continued

INVENTORY
Inventories are stated at the lower of cost and net realisable value.

TRADE AND OTHER RECEIVABLES
Trade and other 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 3 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 asset recognised in the Balance Sheet in respect of defined benefit pension plans is the fair value of plan assets less present value of the defined benefit obligation at the year end. 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. More information is provided in note 21.

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
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 2024, only one of the Group's derivatives qualified for hedge accounting, but the Company elected not to apply hedge accounting (2023: one). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

LOANS RECEIVABLE
Loans receivable are measured at fair value on initial recognition. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest is credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding. The Group recognises a loss allowance for expected credit losses (ECL) on its loans receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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 comprises 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

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 reserves.

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.

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 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. More information is provided in note 17. Provisions are not recognised for future operating losses.

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

FINANCING RISK MANAGEMENT OBJECTIVES AND POLICIES

Treasury activities are managed within a formal set of treasury policies and objectives, which is reviewed regularly and approved by the Board at least annually. The policies specifically prohibit any transactions of a speculative nature and the use of complex financial instruments.

Certain detailed policies for managing interest rate, currency, inflation and liquidity risks are approved by the Board and may be changed only with the consent of Dŵr Cymru Cyfyngedig's Security Trustee. 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.

1) CREDIT RISK

The Group's Board-approved treasury policy adopts a prudent approach to cash management and timed deposits are placed for a maximum of 3 months with banks subject to minimum long-term rating criteria of A-/A3/A-. Bonds can be purchased from certain AA-rated counterparties with maturities of up to one year and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. During the year ended 31 March 2024, the maximum cash investment with a single counterparty was £100 million (2023: £100 million).

1. Accounting policies, financial risk management and accounting estimates continued

2) 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 2024, the Group had hedges covering 98% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2023: 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 £4,224 million as at 31 March 2024 (2023: £4,135 million), £85 million related to floating rate debt (2023: None). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2024 94% (2023: 97.0%) 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 generally 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 £438 million in the balance sheet at 31 March 2024 (2023: £435 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil as payments are made.

3) 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.

4) REFINANCING RISK

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £4,224 million (2023: £4,135 million) can fall due in any 24-month period.

5) LIQUIDITY RISK

The Group maintains committed banking facilities in order to provide flexibility in the management of its liquidity.

Under the Common Terms Agreement, which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months.

As at 31 March 2024, the Group had committed undrawn borrowing facilities of £400 million, of which £320 million (2023: £200 million) remained undrawn, and cash and cash equivalents (excluding debt service payments account) of £167 million (2023: £379 million). There is also a £10 million overdraft facility renewable on an annual basis.

As at 31 March 2024, there was also a special liquidity facility of £135 million (2023: £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 5-year evergreen basis.

6) CAPITAL RISK

The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, the Group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value as determined by Ofwat and linked to movements in the Consumer Prices Index (CPIH). As at 31 March 2024, the measure of regulatory gearing was 60% (2023: 59%).

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

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

PARENT COMPANY GUARANTEE
The Company has provided a guarantee for each of the following subsidiaries in order for them to take the exemption from the requirement of an audit, in line with the requirements of S479A of the Companies Act 2006:

- Cambrian Utilities Limited, company number 10082803
- Welsh Water Infrastructure Limited, company number 10082776
- Welsh Water Holdings Limited, company number 10079953
- Welsh Water Organic Waste Limited, company number 11468450

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.

1) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES
Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. Management use standardised collection rates as observed over the preceding 3 years to determine the level of bad debts. There are as follows:

Measured debt based on historical data:

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

Unmeasured debt based on historical data:

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

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

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

To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £2.0 million (2023: £2.0 million).

2) PARENT COMPANY'S EXPECTED CREDIT LOSSES ESTIMATE
The Company approached its impairment assessment of intercompany loans via historical and forward-looking analyses, using both qualitative and quantitative information. A core focus of the forward-looking analysis was cash flow forecasts for the next two years, to 31 March 2026. This is aligned with the end of Dŵr Cymru Cyfyngedig's (the Group's operating company)'s current period of regulated revenues during which there is certainty of billed turnover values. In addition, consideration was made to the long-term viability assessment with a review period over seven years, available on pages 67 to 71.

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

1. Accounting policies, financial risk management and accounting estimates continued

3) PENSION BENEFITS

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. The key assumptions are the discount rate, price inflation, salary increases and mortality rates, which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high-quality corporate bonds, denominated in sterling, that have time to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2024 would increase or reduce by £5.0 million (2023: £5.7 million). It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note 21.

If the scheme's assets underperform relative to the discount rate used to calculate the liabilities, this will decrease the value of the projected surplus or 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 £420.0 million (2023: £412.1 million), assets with a fair value of £113.4 million (2023: £114.8 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 asset by £5.7 million (2023: £5.7 million).

The mortality assumption used to calculate the present value of the pension obligations is broken down into two distinct parts. Firstly, current mortality rates (base table), and secondly, how these rates should allow for future improvements. For the present value calculation, the S3PxA base tables have been used, adjusted for weightings of 101% for males and 104% for females, with improvements in line with the CMI 2022 projection model, with a long-term trend rate of 1.0% per annum. The CMI model is used by UK pension schemes and insurance companies, which need to make assumptions about future mortality rates.

4) ACCOUNTING FOR LEAKAGE AND PER CAPITA CONSUMPTION RESTATEMENT

As reported in FY 23, the Group proposed a customer redress package totalling £29 million to address the restatement of the Group's leakage and per capita consumption performance. In March 2024, Ofwat concluded their investigation into 'Welsh Water leakage performance' accepting the proposed package.

Accounting judgement: The Group has applied judgement to the structure of the package, splitting the redress between immediate customer rebate and foregoing future RCV. Customer rebates of £15 million have been defrayed in full in FY 24 and also will forego £14 million for the RCV uplift at PR24.

A provision is not recognised at 31 March 2024 for the £14 million redress element as it represents lower expected prices to be charged to customers to be agreed at a future date through the regulatory mechanism. Under the regulatory mechanism for PR24, the Group is entitled to recover regulatory overspend for FY 21 and FY 22 that is attributable to leakage expenditure, but the Group will not take this into account in the RCV uplift on 1 April 2025.

5) PARENT COMPANY'S INVESTMENT IN SUBSIDIARIES

Glas Cymru Holdings Cyfyngedig's investment in its subsidiaries is reported at fair value, using an enterprise value based on shadow RCV with reference to a discounted cash flow approach, the weighted average cost of capital and peer company comparatives. The discounted cashflows are based on the Group's financial plan for the year to 31 March 2025 and the PR24 submission to Ofwat for the five years ended 31 March 20230. There is an inherent uncertainty involved in valuing the investment at RCV without any premium with each 1% premium increasing the valuation by £75m. The reduction in valuation in the year reflects the current negative industry sentiment which has resulted in a lower premium over RCV being applied.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1. Accounting policies, financial risk management and accounting estimates continued

6) 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 and market 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.

At 31 March 2024 the fair values of derivatives were as follows:

Level 2:

Assets: trading derivatives £1.2 million, treasury derivatives £nil (2023: trading derivatives £9.9 million, treasury derivatives £nil).

Liabilities: trading derivatives £nil, treasury derivatives £439.1 million (2023: trading derivatives £nil, treasury derivatives £444.5 million).

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.

7) CAPITALISATION

There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure on both infrastructure and non-infrastructure assets meet the relevant criteria for capitalisation (directly attributable to the asset, provide probable economic benefit and can be measured reliably) and, therefore, are included in the valuation of property, plant and equipment, or alternatively should be expensed immediately. We capitalise expenditure relating to employee costs on both a direct and an indirect basis, through the use of timesheets and estimation of overhead costs that is attributable to a capital project, which is reviewed at a minimum annually. Were our capitalisation percentage to increase or decrease by 5% this would result in a financial impact of £9.7 million, based on total employment costs.

This is monitored continually through a process of capital programme cost challenge and operating cost scrutiny, complemented by a third-party analysis of the capital programme breakdown between maintenance costs charged to the income statement and property, plant and equipment additions to the balance sheet.

1. Accounting policies, financial risk management and accounting estimates continued

8) USEFUL ECONOMIC LIFE IMPACT ON DEPRECIATION

The estimated useful economic lives of Property Plant and Equipment (PPE) and intangible assets has been estimated based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE and intangibles investment to the Group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £386.7 million. A 10 per cent increase in average asset lives would have resulted in a £35.2 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £38.6 million increase in this figure.

9) CLIMATE CHANGE

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

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

Further information on our climate-change strategy is available on page 30.

10) INCOME FROM CONNECTIONS TO TEH WATER AND SEWERAGE NETWORK

The Group receives income from developers for new connections to the water and sewerage networks in the form of adopted infrastructure assets. In assessing this income, we have judged the contract to be outside the scope of IFRS 15 and therefore recognised a deferred income balance at the fair value of the assets adopted which is released to the income statement to reduce the depreciation of the associated assets to which the relate. Any connection charges to developers or domestic customers for new connections to the network are recognised immediately in revenue on completion of the new connection as that is judged to be the performance obligation under IFRS 15.

RESTATEMENT

The consolidated balance sheet at 31 March 2023 has been restated for the presentation of derivative financial instruments. Derivative financial instruments are now presented as a single unit of account, whereas previously multiple units of account were applied to each instrument. This has resulted in changes to derivatives in the balance sheet as follows:

- non-current assets – decrease of £314.4 million
- current assets – decrease of £21.3 million
- current liabilities – decrease of £26.3 million
- non-current liabilities decrease of £309.4 million

There is no impact on the total balance of derivative financial instruments or on net assets.

The consolidated income statement and consolidated cashflow statement (see change in accounting policies on page 174) for the year to 31 March 2023 have been restated for the presentation of financial expenses, with £20.9 million now disclosed as payments on derivative financial instruments as an element of the fair value gain on derivatives rather than being included in the financial expenses heading. There is no impact on total financial expenses, the loss for the year, or net cashflow for the year.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

2. Revenue

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. The Dŵr Cymru Executive is the Group's chief operating decision maker with reports provided to it on this basis.

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

Group	2024 £m	2023 £m
Regulated revenue		
Water	**374.2**	330.6
Sewerage	**495.6**	457.3
Retail	**46.8**	46.9
Total regulated revenue	**916.6**	834.8
Other (non-regulated)	**11.3**	9.0
Total revenue	**927.9**	843.8

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.

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

As reported in FY 23 the Group proposed a customer redress package totalling £29 million, accepted by Ofwat when their investigation was concluded in March 2024. As part of this package, customer rebates of £15 million were provided for at 31 March 2023 and recognised within the FY 23 Water income stream. The rebates have been defrayed in full during FY 24.

3. Operating profit/(loss)

The following items have been included in arriving at the operating (loss)/profit:

Group	2024 £m	2023 £m
Operating expenditure		
Power	**76.1**	74.3
Chemicals	**22.7**	21.9
Materials and equipment	**9.7**	9.7
Vehicles and plant	**5.9**	6.6
Office expenses	**6.7**	5.9
Property costs	**3.8**	3.5
Insurance	**7.5**	6.6
Water and sewerage contractors	**12.3**	27.1
Laboratories and analytical services	**1.7**	1.4
Collection commissions	**1.5**	1.9
IT contracts	**17.3**	14.9
Bought-in services and other costs	**55.5**	52.8
Employee costs (note 20)	**193.7**	185.0
Staff costs capitalised or classified to infrastructure renewals expenditure	**(88.0)**	(79.1)
Research and development credit	**(0.5)**	(0.5)
Rates	**26.3**	27.0
Natural Resources Wales/Environment Agency charges	**17.3**	16.4
Fees payable to Auditors	**0.8**	0.7
Total operational expenditure	**370.3**	376.1
Impairment of trade and other receivables	**28.3**	24.8
Other operating income	**(5.2)**	(5.3)
Exceptional item	**–**	30.8
Infrastructure renewals expenditure	**101.3**	78.0
Depreciation and amortisation		
Depreciation of property plant and equipment	**329.6**	319.6
Movement in deferred income	**14.7**	(12.4)
Amortisation of intangible assets	**42.4**	39.6
Total depreciation and amortisation	**386.7**	346.8
Total operating costs	**881.4**	851.2

The Group incurred insignificant expenses relating to short-term leases, leases of low-value assets or variable lease payments in 2024 and 2023.

Staff costs in the year of £3.6 million (2023: £nil) have been classified to infrastructure renewals expenditure.

Other operating income principally comprises income from the export of internally generated gas.

Movement in deferred income relates to the income recognised on asset adopted by the Group at nil cost where the assets are initially recognised at fair value within fixed assets and depreciated over their useful economic life with a corresponding movement in deferred income.

Exports of renewable electricity is included within power costs as it is treated as a natural hedge to our consumption. Our energy strategy is to enter into contracts which fix the price of consumption less exports of future power purchases in order to reduce the impact of power price variances. During the year, consumption charges amounted to £83.4 million (2023: £82.6 million) and we exported £8.4 million (2023: £15.0 million).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

3. Operating profit/(loss) continued

SERVICES PROVIDED BY THE GROUP'S AUDITORS

During the year, the Group obtained the following services from its statutory Auditors:

Group	2024 £000	2023 £000
Audit fees		
Audit of parent company and consolidated financial statements	**61**	68
Audit of subsidiary companies	**516**	467
Total audit fees	**577**	535
Audit-related assurance services	**106**	111
Other assurance services	**141**	71
Total audit, audit-related and other assurance services	**824**	717
Total cost of services provided by the Group's Auditors	**824**	717

Audit-related assurance 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. All non-audit work will be subject to prior competitive tendering and approval by the Audit Committee.

EXCEPTIONAL ITEM

There were no exceptional items in the year to 31 March 2024.

In the year to 31 March 2023, we recognised an exceptional item totalling £30.8 million. This item represents awards of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules full RPI increases could only be awarded if certain criteria were met. In FY 23 scheme awards above a 5% cap have been paid by the pension scheme and, as the scheme is now in surplus, these conditions are expected to be paid in the future. Therefore, the expense in FY 23 represents the additional awards given. In the future it is expected that changes to this assumption will be presented in Other Comprehensive Income as required under IAS 19. This is disclosed as exceptional in FY 23 as the accounting treatment of these increases through the profit and loss account will only occur that year, was a significant value, and it did not closely reflect day-to-day operational expenditure. For the avoidance of doubt, management will make consideration of the 'best endeavours' clause in all future periods and as such any movement in estimate will be presented as Other Comprehensive Income as required under IAS 19.

4. Financing costs

Group	2024 £m	2023 Restated £m
Interest on investments	**20.5**	14.9
Net interest income on pension scheme liabilities	**0.7**	-
Finance income	**21.2**	14.9
Financial expenses:		
Interest payable on bonds	**(102.0)**	(97.5)
Indexation on index-linked bonds	**(115.3)**	(161.4)
Indexation on index-linked loan	**(11.7)**	(30.3)
Interest payable on leases (including swaps to RPI)	**(28.9)**	(9.2)
Other loan interest	**(23.7)**	(18.4)
Other interest payable and finance costs	**(7.0)**	(7.0)
Net interest charge on pension scheme liabilities	**–**	(2.1)
Capitalisation of borrowing costs under IAS 23 (2024: 5.5%; 2023: 7.9%)	**18.6**	28.3
Financial expenses before fair value gains/(losses) on derivative financial instruments	**(270.0)**	(297.6)
Net receipts/payments on derivative financial instruments	**37.4**	(20.9)
Fair value (losses)/gains on interest rate swaps	**(42.6)**	32.1
Fair value gains on index-linked swaps	**44.1**	157.2
Fair value (losses) on trading derivatives	**(8.8)**	(29.1)
Fair value gains on derivative financial instruments	**30.1**	139.3
Net finance cost	**(218.7)**	(143.4)
Fair value losses excluded for covenant reporting	**7.3**	(160.2)
Net finance costs for covenant reporting	**(211.4)**	(303.6)

The comparators for financial expenses and settlements on derivative financial instruments settlements in the year have been restated. Financial expenses have reduced by £20.9m with a corresponding decrease in fair value gains on derivatives. More information is available under note 1 to these financial statements.

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

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

5. Taxation

ANALYSIS OF CREDIT IN THE YEAR

Group	2024 £m	2023 £m
Current tax		
Current tax on loss for the year	**–**	–
Current tax on research and development credit	**–**	(0.1)
Adjustment in respect of prior years	**0.1**	0.1
Total current tax	**0.1**	–
Deferred tax		
Origination and reversal of timing differences	**39.8**	46.1
Adjustment in respect of prior years	**1.5**	(20.3)
Total deferred tax (note 6)	**41.3**	25.8
Taxation	**41.4**	25.8

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

5. Taxation continued

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.

Current taxes in respect of prior years of £0.1 million (2023: £0.1 million) relate to tax credits for R&D, and the remediation of contaminated land.

The deferred tax credit in respect of prior years has arisen from the identification of an additional plant and machinery expenditure, which was eligible for a 130% super-deduction when the 2023 corporation tax computation was finalised. The 2023 comparative includes a prior year deferred tax charge of £21.0 million resulting from changes to the valuation of inflation-linked swaps which arose that year. These had previously been expected to reverse after March 2023 when the corporation tax would be 25% rather than 19%. However, as they reversed in 2023, when tax rate was 19%, an additional charge of £21.0 million was disclosed as a prior year item as it related to a change in an estimate made at 31 March 2022.

The 'super-deduction' regime for plant and machinery expenditure ended on 31 March 2023. Therefore, there is no tax credit in the current period.

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released model rules for a new global minimum corporate tax framework applicable to multinational enterprise groups with global revenues exceeding €750m ('Pillar Two'). The BEPS Pillar Two Minimum Tax legislation was substantively enacted in June 2023 in the UK and will be effective for the Group's financial year beginning 1 April 2024. The Group has applied the mandatory temporary exception under IAS 12 in relation to the accounting for deferred taxes arising from the implementation of the Pillar Two rules. The Group has assessed its potential exposure to Pillar Two income taxes and the new rules are not expected to have a material impact on the tax charge for the Group.

The effective rate of tax for the year is lower (2023: lower) than the standard rate of corporation tax in the UK of 25% (2023: 19%). The differences are explained below:

Group	2024 £m	2023 £m
Loss before tax	**(172.3)**	(150.5)
Loss before tax multiplied by the corporation tax rate in the UK of 25% (2023: 19%)	**43.1**	28.6
Effect of:		
Adjustments in respect of prior years	**1.6**	(20.2)
Depreciation charged on non-qualifying assets	**(2.6)**	(1.9)
Expenses not deductible for tax purposes	**(0.7)**	(0.1)
130% super-deduction for plant and machinery	**–**	2.8
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (25%)	**–**	16.6
Taxation	**41.4**	25.8

5. Taxation continued

CURRENT TAX RECONCILIATION

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

Group	2024 £m	2023 £m
Loss before Tax	**(172.3)**	(150.5)
Expected tax credit (25%, 2023: 19%)	**43.1**	28.6
Depreciation in excess of capital allowances	**(70.4)**	(34.8)
Pension costs in excess of payments	**0.2**	(6.2)
Expenses not deductible for tax purposes	**(0.2)**	(0.2)
Environmental non-compliance fine	**(0.5)**	–
Fair value movements in derivatives – non-taxable	**21.4**	66.1
IFRIC 18 – release of income not taxable	**4.1**	2.3
Movement in provisions deductible when paid	**0.5**	0.3
Capitalised interest – tax deductible when capitalised	**4.7**	5.4
R&D Expenditure Credits taxed in prior years	**–**	0.1
Adjustments in respect of prior years	**0.1**	0.1
Tax losses carried forward	**(2.9)**	(61.7)
Current Taxation	**0.1**	–

The Group invests heavily in capital expenditure and is, therefore, able to claim tax relief in the form of capital allowances, a Government tax relief which aims to stimulate this type of investment. As the Group has no shareholders the surpluses it generates help keep water bills down and are also reinvested to improve the quality of services to customers, rather than being paid to shareholders as dividends. This reinvestment is often in the form of capital expenditure, which attracts further capital allowances. As a result of the Group's profit forecasts and the capital allowances it is able to claim following the introduction of the full expensing regime for plant and machinery expenditure, the Group does not expect to pay corporation tax during AMP8 (2026–2030).

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 (excluding payments and receipts) 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. The Group has elected to be treated as 'qualifying infrastructure companies' under the Public Benefit Infrastructure Exemption provided for within the corporate interest restriction legislation. As a result, there is no interest restriction for the current period (2023: £nil).

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
CONTINUED

6. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2023: 25%).

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

Group	2024 £m	2023 £m
At 1 April	**822.1**	668.4
(Credit) to income statement	**(41.3)**	(25.8)
Charge to the Statement of comprehensive income in respect of actual gains on pension benefits	**6.6**	31.1
Charge to the Statement of comprehensive income in respect of revaluation of fixed asset	**35.4**	148.4
At 31 March	**822.8**	822.1

Deferred tax liabilities at 31 March 2024 are disclosed on the balance sheet as £812.3 million deferred tax liabilities and £10.5 million set against the pension scheme surplus under non-current assets.

Group	2024 £m	2023 £m
Effect of:		
Tax allowances in excess of depreciation	**346.5**	366.2
Deferred tax on revaluation of fixed assets	**567.2**	565.9
Capital gains rolled over	**4.0**	4.0
Deferred tax on tax losses carried forward	**(103.2)**	(93.4)
Deferred tax on losses on derivative financial instruments	**(1.0)**	(22.5)
Pensions	**10.5**	3.7
Other tax differences	**(1.2)**	(1.8)
Deferred tax	**822.8**	822.1

An analysis of the movements in the major deferred tax liabilities and assets recognised by the group is set out below:

	Accelerated tax depreciation £m	Pensions £m	Tax losses £m	Other £m	Total £m
At 1 April 2022	807.5	(19.3)	(8.6)	(111.3)	668.3
Charge/(credit) to income	(19.8)	(8.1)	(84.8)	87.0	(25.7)
Charge/(credit) to reserves	148.4	31.1	–	–	179.5
At 1 April 2023	**936.1**	**3.7**	**(93.4)**	**(24.3)**	**822.1**
Charge/(credit) to income	**(53.8)**	**0.2**	**(9.8)**	**22.1**	**(41.3)**
Charge/(credit) to reserves	**35.4**	**6.6**	**–**	**–**	**42.0**
At 31 March 2024	**917.7**	**10.5**	**(103.2)**	**(2.2)**	**822.8**

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 £346.9 million at the balance sheet date (2023: £366.2 million). A deferred tax liability of £567.2 million (2023: £565.9 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 £1.0 million (2023: £22.5 million) in respect of derivative financial instruments which are carried at their fair value in the accounts. The fair value movements relating to derivatives are not subject to corporation tax in the period in which they arise but are taxable/deducible in later periods when the actual cash flows occur. The maturities of the derivatives are set out in note 15, and in some cases extend to 2057.

A deferred tax liability of £10.5 million (2023: £3.7 million) has been recognised in relation to the surplus (2023: surplus) on the pension scheme – see note 21.

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

The Group has tax losses of £412.7 million carried forward at 31 March 2024 (2023: £374.0 million).

Deferred tax has not been provided on £133.0 million of chargeable gains which have been rolled over where the new asset has been classified as operational structure e.g. concrete tanks. These assets are typically demolished or scrapped at the end of their useful economic life and therefore we do not expect a chargeable gain will arise in the future. If deferred tax were recognised in respect of these gains, then the deferred tax liability at 31 March 2024 would increase by £33.3 million (2023: £33.3 million) being the rolled over gain multiplied by the rate used to calculate deferred taxes of 25% (2023: 25%).

The parent company has no deferred tax balance (2023: nil).

7. Revaluation reserve

GROUP

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 2024, 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 2023 RCV published by Ofwat in its PR19 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

Revaluation reserve movement	2024 £m	2023 £m
Revaluation reserve as at 1 April	**1,692.0**	1,339.7
Revaluation of assets to RCV	**141.8**	593.4
Depreciation charge on revalued assets	**(136.3)**	(114.5)
	5.5	478.9
Deferred tax on revaluation	**(35.4)**	(148.4)
Deferred tax on depreciation charge	**34.1**	21.8
	(1.3)	(126.6)
Revaluation reserve as at 31 March	**1,696.2**	1,692.0

COMPANY

The movement in the parent company's revaluation reserve relates solely to the decrease in the value of the company's investment in subsidiaries during the year, by £593.7 million, from £4,095.7 million to £3,502.0 million (2023: decrease of £105.8 million, from £4,201.5 million to £4,095.7 million). This is reflected in the Statement of Changes in Reserves.

.8. Property, plant and equipment

Group – 2024	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2023	42.0	3,445.3	5,123.9	278.8	8,890
Revaluation	–	4.9	–	–	4.9
Additions net of grants and contributions	–	241.8	271.2	7.9	520.9
Disposal	–	–	–	(2.5)	(2.5)
At 31 March 2024	42.0	3,692.0	5,395.1	284.2	9,413.3
Accumulated depreciation					
At 1 April 2023	25.2	–	1,621.4	273.2	1,919.8
Revaluation	–	(51.7)	(85.2)	–	(136.9)
Charge for the year	0.7	51.7	274.0	3.2	329.6
Released on disposal	–	–	–	(2.5)	(2.5)
At 31 March 2024	25.9	–	1,810.2	273.9	2,110.0
Net book value					
At 31 March 2024	16.1	3,692.0	3,584.9	10.3	7,303.3
At 31 March 2024 (historic cost basis)	16.1	2,465.1	2,518.4	10.3	5,009.9

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

8. Property, plant and equipment continued

The net book value of property, plant and equipment includes £292.8 million in respect of assets in the course of construction (2023: £343.3 million).

The net book value of property, plant and equipment includes £131.3 million of borrowing costs capitalised in accordance with IAS 23 (2023: £118.0 million), of which £16.7 million were additions in the year (2023: £25.1 million).

The net book value of freehold land and buildings includes £15.9 million in respect of land, which is not depreciated (2023: £15.9 million).

Group – 2023	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2022	42.6	3,029.4	4,908.2	281.2	8,261.4
Revaluation	–	210.8	–	–	210.8
Additions net of grants and contributions	–	205.1	215.7	0.3	421.1
Disposal	(0.6)	–	–	(2.7)	(3.3)
At 31 March 2023	42.0	3,445.3	5,123.9	278.8	8,890.0
Accumulated depreciation					
At 1 April 2022	25.0	–	1,688.0	273.0	1,986.0
Revaluation	–	(71.7)	(310.9)	–	(382.6)
Charge for the year	0.8	71.7	244.3	2.8	319.6
Released on disposal	(0.6)	–	–	(2.6)	(3.2)
At 31 March 2023	25.2	–	1,621.4	273.2	1,919.8
Net book value					
At 31 March 2023	16.8	3,445.3	3,502.5	5.6	6,970.2
At 31 March 2023 (historic cost basis)	16.8	2,275.8	2,408.8	5.6	4,707.0

8. Property, plant and equipment continued

RIGHT-OF-USE ASSETS

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

Group – 2024	Infrastructure assets £m	Operational structures £m	Total £m
Net book value at 1 April 2023	684.6	0.1	684.7
Disposal	(269.3)	–	(269.3)
Revaluation	20.8	–	20.8
Depreciation	(39.4)	–	(39.4)
Net book value at 31 March 2024	396.7	0.1	396.8
Net book value at 31 March 2024 (historical cost)	265.1	0.1	265.2

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

The disposal of £265.4 million (2023: £26.9 million) represented the termination of a lease arrangement with the Group retaining ownership of the underlying assets.

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 – 2024	Cost £m	Amortisation £m	Net book value £m
At 1 April 2023	538.4	(335.8)	202.6
Additions/(charge) for the year	41.2	(42.4)	(1.2)
At 31 March 2024	579.6	(378.2)	201.4

Intangible assets principally comprise computer software and related system developments.

Group – 2023	Cost £m	Amortisation £m	Net book value £m
At 1 April 2022	499.8	(296.2)	203.6
Additions/(charge) for the year	38.6	(39.6)	(1.0)
At 31 March 2023	538.4	(335.8)	202.6

The net book value of intangible assets includes £42.1 million in respect of assets in the course of construction (2023: £33.0 million). The net book value of intangible assets includes £13.3 million of borrowing costs capitalised in accordance with IAS 23 (2023: £12.6 million), of which £1.9 million were additions in the year (2023: £3.1 million).

The Parent company owns no intangible assets.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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	Class of capital	Holding
Glas Cymru (Securities) Cyfyngedig	Holding company	UK resident	England and Wales	Ordinary shares of £1	100%
Dŵr Cymru (Holdings) Limited	Holding company	UK resident	England and Wales	Ordinary shares of £1 and redeemable preferred ordinary shares of £1	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	UK resident	England and Wales	Ordinary shares of £1	100%
Dŵr Cymru (Financing) UK Plc	Raising finance	UK resident	England and Wales	Ordinary shares of £1	100%
Cambrian Utilities Limited	Retail services in the competitive market	UK resident	England and Wales	Ordinary shares of £1	100%
Welsh Water Infrastructure Limited	Competitive business activity in the water sector and other associated sectors	UK resident	England and Wales	Ordinary shares of £1	100%
Welsh Water Organic Energy Limited	Food waste processing, treatment and recycling	UK resident	England and Wales	Ordinary shares of £1	100%
Welsh Water Organic Energy (Cardiff) Limited	Operation and maintenance of an anaerobic digestion food waste facility	UK resident	England and Wales	Ordinary shares of £1	100%
Welsh Water Organic Waste Limited	Tankering of liquid waste for disposal	UK resident	England and Wales	Ordinary shares of £1	100%

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

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 at https://dwrcymru.com/companystructure.

Investment in subsidiaries	2024 £m	2023 £m
At 1 April	**4,095.7**	4,201.5
Revaluation	**(593.7)**	(105.8)
At 31 March	**3,502.0**	4,095.7

The parent Company's investments in subsidiary companies are initially recognised at cost and subsequently revalued to fair value. The fair value of investments mainly comprises the fair value of the regulated water and sewerage company, Dŵr Cymru Cyfyngedig which has been valued at an enterprise value of shadow RCV triangulated against a discounted cashflow using the financial plan to 31 March 2025 and PR24 submitted financial model to 31 March 2030.

See also the critical accounting estimates in note 1.

Revaluation amounts are recognised in other comprehensive income.

11. Trade and other receivables

Group	2024 £m	Restated 2023 £m
Current		
Trade receivables	**559.1**	604.6
Provision for impairment of receivables	**(84.2)**	(80.7)
Trade receivables – net	**474.9**	523.9
Prepayments	**15.4**	22.1
Accrued income	**98.7**	87.5
Other receivables	**56.7**	15.1
	645.7	648.6
Non-current		
Other receivables	**2.2**	0.7
Total trade and other receivables	**647.9**	649.3

The prior year comparatives have been restated to show trade receivables subject to charging orders gross within trade receivables rather than as a reduction to the provision for impairment. The impact of the change was to increase trade receivables by £7.4 million with a corresponding increase in provision for impairment. There is no impact on net trade receivables.

The carrying amounts of trade and other receivables approximate to their fair value at 31 March 2024 and 31 March 2023.

As at 31 March 2024, based on a review of historical collection rates, it was considered that £84.2 million (2023: £80.7 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.

2024 Trade receivables	Total £m	Provided for £m	Net £m
Billed in advance	**362.6**	**–**	**362.6**
Under one month	**26.7**	**(1.7)**	**25.0**
Between one and six months	**47.2**	**(3.0)**	**44.2**
Between six months and one year	**31.5**	**(2.0)**	**29.5**
Between one and two years	**36.3**	**(33.1)**	**3.2**
Between two and three years	**24.5**	**(23.3)**	**1.2**
Over three years	**30.3**	**(21.1)**	**9.2**
	559.1	**(84.2)**	**474.9**

2023 Trade receivables	Total £m	Provided for £m	Net £m
Billed in advance	408.1	–	408.1
Under one month	23.2	(1.4)	21.8
Between one and six months	40.2	(2.5)	37.7
Between six months and one year	28.2	(1.7)	26.5
Between one and two years	42.6	(32.0)	10.6
Between two and three years	26.4	(23.6)	2.8
Over three years	35.9	(19.5)	16.4
	604.6	(80.7)	523.9

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

11. Trade and other receivables continued

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

	2024 £m	2023 £m
At 1 April	**80.7**	77.0
Charge to Income Statement	**27.6**	23.7
Receivables written off during the year as uncollectable	**(24.1)**	(20.0)
At 31 March	**84.2**	80.7

During the year, the Group has written off £24.1 million of debt which had been provided for in full (2023: £20.0 million).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The majority of trade receivables relates to a large number of small customer bills (household and non-household) such that the concentration risk is deemed low. Included within other receivables is £39.4m (2023: £14.2m) from one quasi-governmental body. Accrued income represents contract assets in respect of timing differences between customer bills and the Group's year end.

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

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

The tables below illustrate the impact of applying the "expected loss" model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors.

2024	Historical default rates %	Forward-looking adjustment %	Adjustment total %	Historical impairment £m	Forward-looking adjustment £m	Total impairment £m
Billed in advance	–	–	–	–	–	–
Under one month	4.4%	1.9%	6.3%	1.2	0.5	1.7
Between one and six months	4.4%	1.9%	6.3%	2.1	0.9	3.0
Between six months and one year	4.4%	1.9%	6.3%	1.4	0.6	2.0
Between one and two years	91.1%	–	91.1%	33.1	–	33.1
Between two and three years	95.2%	–	95.2%	23.3	–	23.3
Over three years	97.7%	–	97.7%	21.1	–	21.1
	–	–	–	82.2	2.0	84.2

2023 restated*	Historical default rates %	Forward–looking adjustment %	Adjustment total %	Historical impairment £m	Forward–looking adjustment £m	Total impairment £m
Billed in advance	–	–	–	–	–	–
Under one month	3.9%	2.2%	6.1%	0.9	0.5	1.4
Between one and six months	3.9%	2.2%	6.1%	1.6	0.9	2.5
Between six months and one year	3.9%	2.2%	6.1%	1.1	0.6	1.7
Between one and two years	75.0%	–	75.0%	32.0	–	32.0
Between two and three years	89.5%	–	89.5%	23.6	–	23.6
Over three years	71.2%	–	71.2%	19.5	–	19.5
				78.7	2.0	80.7

* The Forward looking adjustment for 2023 has been restated to reflect recoverability of 90% charging order in historical impairment.

The Group holds around 7,550 charging orders as collateral against £12.5 million of debt (2023: 7,400 orders against £12 million of debt).

11. Trade and other receivables continued

The Group's trade receivables provisioning methodology applies the simplified approach allowed under IFRS 9 to measure expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables and accrued income. The impact on the accrual as at 31 March 2024 is £4.7 million, being a revenue provision of 5% against a gross balance of £94.2 million (2023: £4.1 million and 5%).

Company

The parent company's loan to group undertakings of £21.6 million (2023: £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 2024 £m	Group 2023 £m	**Company 2024 £m**	Company 2023 £m
Cash at bank and in hand	**19.6**	35.1	**–**	–
Short-term deposits	**147.5**	344.3	**12.3**	10.6
	167.1	379.4	**12.3**	10.6

The effective interest rate on short-term deposits as at 31 March 2024 was 5.1% (2023: 3.9%) and these deposits had an average maturity of 1 day (2023: 44 days). All cash and cash equivalents were held in sterling.

13. Trade and other payables

Group **Current**	**2024 £m**	2023 £m
Trade payables	**61.3**	64.6
Capital payables	**58.0**	56.1
Social security and other taxes	**4.0**	3.6
Accruals	**97.3**	141.0
Deferred income	**407.3**	420.5
	627.9	685.8

Group **Non-current**	**2024 £m**	2023 £m
Accruals	**26.0**	–
Deferred income	**714.4**	540.8
	740.4	540.8

14. Other financial liabilities – borrowings

Group **Current**	**2024 £m**	2023 £m
Interest accruals	**18.2**	30.3
Bonds	**(0.7)**	(0.7)
Term loans	**170.3**	64.2
Lease liabilities	**49.9**	0.9
	237.7	94.7

Group **Non-current**	**2024 £m**	2023 £m
Interest accruals	**4.4**	20.0
Bonds	**3,262.7**	3,148.7
Term loans	**615.2**	545.0
Lease liabilities	**126.4**	377.2
	4,008.7	4,090.9

The parent company has no borrowings.

Bonds are stated net of £12.7 million (2023: £12.2 million) unamortised issue costs and £1.6 million (£2.4 million) of unamortised issue premium.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

14. Other financial liabilities – borrowings continued

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 £1,197 million (2023: £1,141 million) benefit from a guarantee from Assured Guaranty UK Ltd. Assured Guaranty's credit rating is graded as A1/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 A1/AA/A from Moody's, Standard & Poor's and Fitch respectively. The underlying rating (A3/A-/A) reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty and is the same as the credit ratings of the Group's Class B bonds of £1,576 million (2023: £1,517 million).

The Group's Class C bonds of £500 million (2023: £500 million) were rated by Baa/BBB/BBB+ by Moody's Standard & Poor and Fitch respectively.

Term loans include £80m (2023: nil) drawn down on revolving credit facility (RCF) of £400m (2023: £200m). The RCF bears interest at Sonia plus 0.45% and expires on 27 February 2027. In December 2023 the Group agreed a new term loan with NatWest for £150m expiring on 31 March 2031, the loan was fully drawn in the year. The remaining term loan balance of £556m relates to loans with EIB and KfW, with an average repayment period of 4.3 years, of which £217m is index-linked and £338m floating, deriving an average interest rate of 6.22% in the year.

In May 2024 the Group agreed a new term loan with KfW for £125m with a committed term to 31 March 2029 with interest payable at a rate of SONIA plus 1.15% paid semi-annually.

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 4).

Fair values Group – 2024	**Assets £m**	**Liabilities £m**
Current		
Power hedging swaps	**1.2**	**–**
	1.2	**–**
Non-current		
Index-linked swaps	**–**	**(376.7)**
Interest rate swaps	**–**	**(21.9)**
		(398.6)
Total	**1.2**	**(398.6)**

Fair values Group – 2023	Assets Restated £m	Liabilities Restated £m
Current		
Power hedging swaps	5.8	–
	5.8	–
Non-current		
Index-linked swaps	–	(418.4)
Interest rate swaps	–	(26.1)
Power hedging swaps	4.1	–
	4.1	(444.5)
Total	9.9	(444.5)

The comparators for derivative financial instruments assets and liabilities have been restated. There is no impact on overall total derivative financial instruments. More information is available under note 1 to these financial statements.

15. Other financial assets and liabilities – derivative financial instruments continued

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.

One (2023: none) swap was terminated in the year with a termination payment of £3.9m (2023: nil) included within the movement of fair value of derivatives in the income statement. The parent company has no derivative financial instruments or embedded derivatives.

INTEREST RATE SWAPS

At 31 March 2024, an interest rate swap fixed the interest rate on £192 million (2023: £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 £176 million (2023: £378 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 2024 was £300 million (2023: £384 million), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2024. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

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

Notional amount	£300 million amortising (2023: £384 million amortising)
Average swap maturity	13 years (2023: 12 years)
Average interest rate	1.50% fixed plus RPI (2023: 1.64% fixed plus RPI)

BOND SWAPS

The index-linked swaps have the effect of index-linking the interest rate on £1,250 million of fixed rate bonds by reference to the RPI (2023: £1,250 million).

The principal terms are as follows:

Indexed notional amount	£1,684 million (2023: £1,595 million)
Swap maturity	14 years (2023: 15 years)
Interest rate	(0.15)% indexed by RPI (2023: (0.16)% 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 178. 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:

	2024	2023
Assets:		
Cash and cash equivalents	**5.1%**	3.9%
Liabilities:		
Bonds	**4.9%**	4.5%
Term loans	**3.8%**	3.0%
Other unsecured loans	**4.6%**	4.6%
Lease liabilities	**6.6%**	6.1%

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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

16. Financing risk management continued

B) LIQUIDITY RISK

Group – 2024	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	**167.1**	–	–	–	**167.1**
Trade and other receivables	**645.7**	**2.2**	–	–	**647.9**
	812.8	**2.2**	–	–	**815.0**
Liabilities:					
Bonds	**0.8**	**481.1**	**499.2**	**2,293.6**	**3,274.7**
Term loans	**170.1**	**91.1**	**199.2**	**324.9**	**785.3**
Other unsecured loans	**0.2**	–	–	–	**0.2**
Lease liabilities	**49.9**	**30.4**	**4.0**	**92.0**	**176.3**
Trade and other payables	**627.9**	**15.6**	**46.8**	**678.0**	**1,368.3**
Derivative financial instruments	**(80.0)**	**36.6**	**79.7**	**742.2**	**778.5**
Future interest payable	**163.9**	**148.3**	**336.0**	**681.1**	**1,329.3**
	932.8	**803.1**	**1,164.9**	**4,811.8**	**7,712.6**

Group – 2023	Within 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	379.4	–	–	–	379.4
Trade and other receivables	649.3	–	–	–	649.3
	1,028.7	–	–	–	1,028.7
Liabilities:					
Bonds	0.8	0.8	950.5	2,208.1	3,160.2
Term loans	64.0	88.5	219.6	236.8	608.9
Other unsecured loans	0.2	–	–	–	0.2
Lease liabilities	0.9	250.8	33.0	93.4	378.1
Trade and other payables	685.8	12.4	37.1	491.3	1,226.6
Derivative financial instruments	13.5	(75.6)	149.4	749.5	836.8
Future interest payable	171.7	157.5	357.3	725.0	1,411.5
	936.9	434.4	1,746.9	4,504.2	7,622.4

The minimum lease payments under leases fall due as follows:

	2024 £m	2023 £m
Gross lease liabilities		
Within one year	**61.5**	24.0
Between two and five years	**54.6**	319.5
After five years	**128.5**	127.4
	244.6	470.9
Future interest	**(68.3)**	(92.8)
Net lease liabilities	**176.3**	378.1
Net lease liabilities are repayable as follows:		
Within one year (note 14)	**49.9**	0.9
Between two and five years	**34.4**	283.8
After five years	**92.0**	93.4
Total over one year (note 14)	**126.4**	377.2

16. Financing risk management continued

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.

	2024		2023	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds	**3,274.7**	**2,944.1**	3,160.2	2,973.7

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

D) BORROWING FACILITIES

As at 31 March 2024, the Group had available committed borrowing facilities of £400 million, of which £320 million remains undrawn, in respect of which all conditions precedent had been met (2023: £200 million).

	2024 £m	2023 £m
Expiring in more than one year:		
Revolving credit facilities	**400.0**	200.0
	400.0	200.0

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

At 31 March 2024, Dŵr Cymru (Financing) UK PLC had a special liquidity facility of £135 million (2023: £135 million), which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through operating cashflow of the Group, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is a 5-year evergreen facility provided by an insurance provider.

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

E) CAPITAL RISK MANAGEMENT

Gearing ratios	2024 £m	2023 £m
Total borrowings (note 14)	**(4,246.4)**	(4,185.6)
Less: cash and cash equivilents (note 12)	**167.1**	379.4
Net debt before CTA required adjustments	**(4,079.3)**	(3,806.2)
Unamortised issue costs	**(12.7)**	(12.2)
Swap indexation	**(434.0)**	(345.0)
Post year end derivative settlements (note 18)	**40.5**	–
Cash and cash equivalents outside of GCA group	**(17.4)**	(15.3)
Net debt	**(4,502.9)**	(4,178.7)
Regulatory Capital Value (RCV)	**7,475.7**	7,161.3
Total capital	**2,972.8**	2,982.6
Gearing ratio	**60%**	58%

As set out on page 179, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat published RCV (Property, Plant and Equipment revaluation is based on shadow RCV, an internal measure, which reflects adjustments to RCV for under or overperformance on measures such as totex and outcome delivery incentives).

Under the Common Terms Agreement regulatory gearing is calculated as the level of net debt (see glossary) in the whole business securitisation group (under Glas Cymru Anghyfyngedig (GCA)) relative to the Regulatory Capital Value.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

17. Provisions

Group – 2024	Restructuring provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2023	3.1	4.6	15.5	23.2
Charged to Income Statement	–	1.0	2.1	3.1
Insured losses	–	2.4	–	2.4
Unused amounts reversed	(1.5)	–	(0.5)	(2.0)
Utilised in year	(0.6)	(1.2)	(14.7)	(16.5)
At 31 March 2024	1.0	6.8	2.4	10.2
Within one year	1.0	2.3	2.1	5.4
After more than one year	–	4.5	0.3	4.8
At 31 March 2024	1.0	6.8	2.4	10.2

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

The parent company had no provisions at 31 March 2024 (2023: none).

RESTRUCTURING PROVISION

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

For the year to 31 March 2024, £1.5 million restructuring cost was not deemed necessary due to natural attrition in the Group and redeployment of staff and was subsequently released back to the income statement in operating expenses.

CLAIMS LOSS PROVISION

This provision is in respect of claims against the Group, where claims are partly or fully covered by insurance a corresponding a corresponding insurance receivable is recognised in other receivables. The net loss provision after deducting an insurance receivable of £2.4m (2023: nil) is £4.4m (2023: £4.6m).

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.

As reported in FY 23, the Group proposed a customer redress package totalling £29 million to address the restatement of the Group's leakage and per capita consumption performance. In March 2024 Ofwat concluded their investigation into 'Welsh Water leakage performance', accepting the proposed package. At 31 March 2023 the Group provided, under other provisions, £15 million for customer rebates as part of this package.

Other provisions also includes £2.1 million being management's estimate of expected fines related to regulatory prosecutions.

18. Net cash inflow from operating activities

A) CASH GENERATED FROM OPERATIONS

Reconciliation of operating profit to cash generated from operations:

Group	2024 £m	2023 £m
Operating (loss)/profit	**46.5**	(7.4)
Adjustments for:		
Depreciation and amortisation	**386.7**	346.8
Changes in working capital:		
Decrease/(increase) in trade and other receivables	**1.1**	(54.6)
(Increase) in inventories	**(2.6)**	(1.0)
(Decrease)/increase in trade and other payables	**(37.8)**	50.8
Exceptional item – pension increase	**–**	30.8
(Decrease)/increase in provisions	**(13.0)**	14.7
	(52.3)	40.7
Cash generated from operations	**380.9**	380.1

For the year to 31 March 2023, we recognised an exceptional item which represented the award of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules, full RPI increases could only be awarded if certain criteria were met. No additional cash contributions were required by the Group to award these increases.

B) INTEREST PAID

Group	2024 £m	2023 Restated £m
Interest payable per Income Statement	**270.0**	297.6
Less non-cash items:		
Indexation on index-linked bonds	**(115.3)**	(161.4)
Indexation on index-linked debt	**(11.7)**	(30.3)
Amortisation of bond issue costs	**(1.5)**	(1.5)
Interest charge on pension scheme liabilities	**–**	(2.1)
Amortisation of bond issue premium	**0.8**	0.8
Effect of capitalisation under IAS 23	**18.6**	28.3
Decrease/(increase) in accruals	**28.4**	(2.7)
	(80.7)	(168.9)
Lease swap termination payment included in other movements on derivative financial instruments	**3.9**	–
Interest paid	**193.2**	128.7

C) NET RECEIPTS/(PAYMENTS) ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2024 £m	2023 Restated £m
Settlements accruing in the year per income statement	**37.4**	(20.9
Less non-cash items:		
Receipts settled post year end	**(40.5)**	–
	(40.5)	
Net (payments) on derivative financial instruments per cash flow statement	**(3.1)**	(20.9)

The comparators for financial expenses and settlements on derivative financial instruments have been restated. There is no impact on the overall loss for the year. More information is avaibale under note 1 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Cash and cash equivalents	**167.1**	379.4	**12.3**	10.6
Debt due after one year	**(3,877.9)**	(3,693.7)	**–**	–
Debt due within one year	**(169.6)**	(63.5)	**–**	–
Lease liabilities	**(176.3)**	(378.1)	**–**	–
Accrued interest	**(22.6)**	(50.3)	**3.5**	3.8
	(4,246.4)	(4,185.6)	**3.5**	3.8
Net (debt)/funds	**(4,079.3)**	(3,806.2)	**15.8**	14.4

B) THE MOVEMENT IN NET (DEBT)/FUNDS DURING THE YEAR MAY BE SUMMARISED AS:

	Group		Company	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Net (debt)/funds at 1 April	**(3,806.2)**	(3,551.4)	**14.4**	13.1
Movement in net cash	**(212.3)**	(135.7)	**1.7**	1.9
Movement in debt arising from cash flows	**39.2**	75.9	**–**	–
Movement in net (debt)/funds arising from cash flows	**(173.1)**	(59.8)	**1.7**	1.9
Movement in accrued interest	**27.7**	(2.5)	**(0.3)**	(0.6)
Indexation of index-linked debt	**(127.7)**	(192.5)	**–**	–
Movement in net (debt)/funds	**(273.1)**	254.8	**1.4**	1.3
Net (debt)/funds at 31 March	**(4,079.3)**	(3,806.2)	**15.8**	14.4

20. Employees and Directors

STAFF COSTS FOR THE GROUP DURING THE YEAR

	2024 **£m**	2023 £m
Wages and salaries	**163.3**	156.3
Social security costs	**16.9**	17.6
Other pension costs	**13.5**	11.1
	193.7	185.0

Of the above, £88.0 million (2023: £79.1 million) has been capitalised or classified within infrastructure renewals expenditure, being the investment cost of employees' work on the capital programme.

	2024 **Number**	2023 Number
Average number of people employed by the Group (including Executive Directors)	**3,790**	3,554

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

	2024 **£m**	2023 £m
Executive Directors	**0.9**	1.5
Other key personnel	**3.8**	2.9
	4.7	4.4

For further information see the Remuneration Report on page 132.

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
CONTINUED

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 Group put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2024: there were two Executive Members with entitlements under this arrangement, one of whom is in receipt of his benefits.

RISKS

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

- Asset volatility:

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

- Movement in bond yields:

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

- Inflation risk:

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

- 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.

VIRGIN MEDIA LTD V NTL PENSION TRUSTEES II LTS & ORS

The Group is aware of the High Court ruling in the case of Virgin Media Ltd v NTL Pension Trustees II Ltd & Ors and is waiting for the outcome of the appeal, scheduled for 25 June 2024, and any additional hearings, as well as confirmation from the Government as to whether it will issue new regulations in response to this issue. The potential financial impact is currently being assessed.

DEFINED BENEFIT SCHEME

A full actuarial valuation of the scheme was undertaken as at 31 March 2022 by Joanne Eynon of Quantum Advisory, an independent, professionally-qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2024 and the principal assumptions made by the actuary were:

	2024	2023
Discount rate	**4.7%**	4.6%
RPI inflation assumption	**3.1%**	3.3%
Rate of uncapped pension increases	**3.1%**	3.3%
Rate of capped pension increases	**3.0%**	3.2%
POST RETIREMENT MORTALITY (LIFE EXPECTANCY)		
– Current pensioners aged 65 – males	**86.3 years**	86.8 years
– Current pensioners aged 65 – females	**88.5 years**	89.0 years
– Future pensioners aged 65 (currently aged 45) – males	**87.2 years**	87.8 years
– Future pensioners aged 65 (currently aged 45) – females	**89.6 years**	90.2 years

The mortality disclosures at 31 March 2024 use the CMI 2022 mortality projection model with a long-term trend rate of 1.0% p.a.

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

21. Pension commitments continued

Changes in the defined benefit obligation, excluding EFRBS, are as follows:

	2024 £m	2023 £m
At 1 April	**397.4**	504.5
Current service cost	**0.1**	0.2
Interest expense	**17.9**	14.0
Remeasurement: (gain) from change in financial assumptions	**(21.1)**	(135.7)
Benefits paid	**(16.4)**	(16.4)
Past service cost	**–**	30.8
At 31 March	**377.9**	397.4

Changes in the fair value plan assets are as follows:

	2024 £m	2023 £m
At 1 April	**412.1**	427.5
Interest income	**18.6**	11.7
Experience gains/(loss)	**5.3**	(11.2)
Contributions	**0.4**	0.5
Benefits paid	**(16.4)**	(16.4)
At 31 March	**420.0**	412.1

Scheme assets	2024 £m	2023 £m
Cash	**40.0**	9.7
Equity and Bonds	**266.6**	287.6
Other	**113.4**	114.8
Total assets	**420.0**	412.1

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 £113.4 million are Level 3 financial assets (2023: £114.8 million); these are considered to be the least liquid and hardest to value and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year.

Equity and Bonds assets are stated net of £5.6 million of derivative financial instruments (2023: £11.0 million). Cash assets include £0.1 million of derivative financial instruments (2023: £0.5 million). Charges to the income statement and statement of comprehensive income are as follows:

	2024 £m	2023 £m
Income statement:		
Service costs	**0.1**	0.2
Net interest (income)/costs	**(0.7)**	2.3
Exceptional pension increases	**–**	30.8
Total (credited)/charged to the income statement	**(0.6)**	33.3
Other comprehensive income:		
Actuarial gain/(loss) on plan assets	**5.3**	(11.2)
Actuarial gain on defined benefit obligation	**21.1**	135.7
Total credit to the statement of comprehensive income	**26.4**	124.5

In the year to 31 March 2023 a past service cost of £30.8 million was recognised representing the award of pension increases under the 'best endeavours' clause in our pension scheme rules where full RPI increases are awarded if certain criteria are met. This was recognised as an exceptional item as our defined benefit liability at 31 March 2023 provided for future pension increases above the 5% 'best endeavours' clause cap. Any movement in estimate in the year ended 31 March 2024 and in future periods is presented as Other Comprehensive Income as required under IAS 19. Further information on the recognition of the exceptional item is available in note 3 on page 186.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21. Pension commitments continued

	2024 £m	2023 £m
Present value of funded obligations	**(377.9)**	(397.4)
Fair value of plan assets	**420.0**	412.1
	42.1	14.7
Deferred tax liability allocated to pension scheme	**(10.5)**	–
Defined benefit asset	**31.6**	14.7
EFRBS unfunded liability	**(2.6)**	(2.7)
Net defined benefit asset/(liability)	**29.0**	12.0

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

	Change in assumption	Movement in liabilities £m
Discount rate	0.10%	5.0
Price inflation	0.10%	4.8
Life expectancy	1 year	9.0

The above sensitivity analysis is based on isolated changes in each assumption while holding all other assumption 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 latest of which was 31 March 2022.

Under the current Schedule of Contributions, no deficit recovery contributions are expected to be paid for the year-ending 31 March 2025. Future service contributions (consisting of amounts payable by members and the Group) will be in the region of £0.2 million.

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

REGULATORY FRAMEWORK

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

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

The Trustee 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.

HIGH INFLATION

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

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

22. Lessor

OPERATING LEASE

	2024 £m	2023 £m
Lease income	**0.1**	0.1

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

The remaining term of the lease is 8 years, with the total undiscounted current minimum lease receipts amounting to £0.8 million, recognised evenly over the remaining term.

23. Capital and other financial commitments

The Group's business plan at 31 March 2024 forecasts net capital expenditure and infrastructure renewals expenditure of £511 million (2023: £429 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. Remuneration to key management personnel has been disclosed in note 20.

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 2024, the balance on this loan stood at £21,553,698 (2023: £21,553,698). Interest is chargeable at a fixed rate of 5% and £1,077,685 was charged during the year (2023: £1,332,435). As at 31 March 2024 accrued interest receivable relating to this totalled £3,403,669 (2023: £3,825,984).

25. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either possible but not probable or probable but cannot be measured with sufficient reliability.

The Group is subject to ongoing investigations (pollution, water quality and compliance) by environmental regulators which could result in a financial outflow, however the potential impact cannot be quantified at this stage.

26. 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.

27. 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.

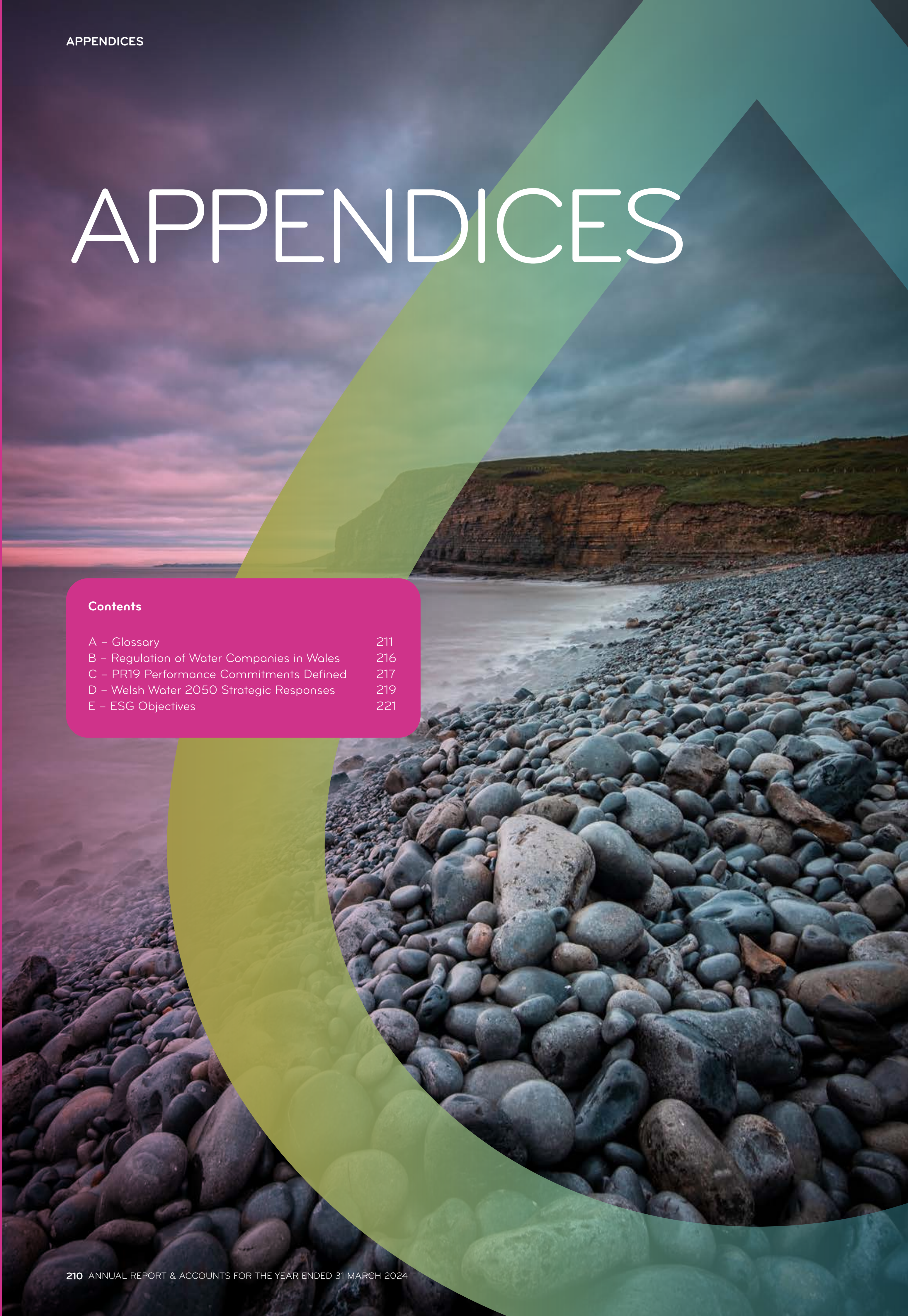
The sum of £31.7 million, representing the consideration for the conditional sale, was invested in a trust fund. The principal function of the fund was to provide an income to Welsh Water Authority, while preserving the capital value of the fund in real terms. Welsh Water Authority's interest in this 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 2024 the market value of the trust fund was £89 million (2023: £90 million).

Interest receivable includes £3.8 million (2023: £3.5 million) in respect of distributions from the Elan Valley Trust Fund.

28. 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.



APPENDICES

Contents

A – GLOSSARY

Name	Description
AMP6	Asset Management Plan 6 ran from 2015 to 2020
AMP7	Asset Management Plan 7 runs from 2020 to 2025
AMP8	Asset Management Plan 8 will run from 2025 to 2030
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 failure	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
BBC	British Broadcasting Corporation
Catchment	An area of land through which water drains into a body of water (such as a river or reservoir)
CAW	Carbon Accounting Workbook
CCW	Consumer Council for Wales
CCWater	Consumer Council for Water
CHP	Combined Heat and Power Engine
CIPS	Chartered Institute of Procurement and Supply
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
Combined sewer	Combined sewer for sewage and rain water runoff
Combined storm overflow	Combined storm overflow is a system for sewage and rain water runoff
Company limited by guarantee	A private company that does not have shareholders or share capital
CPIH	Consumer Prices Index – including owner occupiers' housing costs
CPNI	Centre for the Protection of National Infrastructure
Credit rating	Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing
CRI	Compliance Risk Index
CRO	Chief Risk Officer
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
CSO/SO	Storm Overflows act as relief valves which prevent the overloading of pipe networks which could otherwise lead to flooding of properties and sewage treatment works. A combined storm overflow acts in the same way but where untreated rainwater and wastewater and sewage are carried together in a combined network
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%
Defra	Department for Environment, Food and Rural Affairs
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

A – GLOSSARY
CONTINUED

Name	Description
D-MeX	The customer service measures for developer services (new connections) customers, developed by Ofwat for AMP7. See C-Mex definition above
DPC	Direct Procurement for Customers
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
DWI	Drinking Water Inspectorate
DWMP	Drainage and Wastewater Management Plan
DWRP	Drinking Water Recovery Plan
EA	The Environment Agency
EDM	Even Duration Monitor
EDI	Equality, Diversity and Inclusion
Effluent	Water that flows from a sewage treatment plant after it has been treated.
eNGO	Environmental non-governmental agency
Environment Agency (EA)	An executive, non-departmental Government body that has a statutory duty to protect and enhance the environment in England.
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
FD	Final Determination
FFO	Funds From Operations. FFO/net debt is a measure of the Group's ability to pay its debt using cash generated from operations and is a key metric used by rating agencies including S&P for assessing credit quality.
Financeability	The ability of appointed water companies to finance their functions through debt, equity or retained earnings.
GDP	Gross Domestic Product
Gearing	Net debt expressed as a percentage of regulatory capital value.
GHG	Greenhouse gas
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
GVA	Gross Value Added
HR	Human Resources
HSOC	Hybrid Security and Operations Centre
ICG	Independent Challenge Group
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
IED	Industrial Emissions Directive

Name	Description
INNS	Invasive non-native species
IPCC	Intergovernmental Panel on Climate Change
ISO	International Standard Organisation
IT	Information technology
KPI	Key Performance Indicators
Leakage	Water lost between the treatment works and the customer's home or business
Liquidity	The availability of readily convertible assets into cash. This represents cash and cash equivalents and revolving credit facilities for the Group
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
Lost time injuries	Injuries arising at work which result in time away from work for treatment and recovery.
LTDS	Long-Term Delivery Strategy
LTVPS/LVPS	Long-term Variable Pay Scheme. A performance-related element of emoluments
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
Net Debt	As per definition in the Common Terms Agreement, total borrowings less cash and cash equivalents adjusted for unamortised bond issue costs, accrued settlements on derivative financial instruments, indexation on bonds where swaps convert the fixed rates to RPI less cash held outside the Glas Cymru Anghyfyngedig Group. Net debt excludes the fair value of derivatives.
NBS	Nature-based solution
NED	Non-executive director
NEP	National Environmental Plan
NMB	Nutrient Management Board
Non-Executive Directors	Members of Glas Cymru's Board who are not responsible for the day-to-day running of the business but challenge management and oversee the running of the Group. See page 117 for further details of their role
NRW	Natural Resources Wales
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
Opex	See Operating Costs
OT	Operational technology
PC	Performance Commitment
PCC	Per capita consumption
PFAS	Perfluoroalkyl and polyfluoroalkyl substances, colloquially known as forever chemicals
PFET	Peak Flow Equivalent Treatment

A – GLOSSARY
CONTINUED

Name	Description
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
PPC	Prompt Payment Code
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
QSC	Quality and Safety Committee
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)
RCP	Representation Concentration Pathways
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
Reportable injuries	Injuries reported to the Health and Safety Executive under RIDDOR regulations
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 and as amended. The regulations specify what injuries diseases and dangerous occurrences must be reported, and how and when.
Reservoir	A natural or artificial lake where water is collected and stored until needed
Return of Value	Payments and investment made for the benefit of our customers funded from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company
Rising main	A pumped pipeline that carries wastewater
RPI	Retail Price Index
RSPB	The Royal Society for the Protection of Birds
SAC	Special Areas of Conservation
Safety Takes Every Person	Behavioural safety training which emphasises that each individual has responsibility for Health and Safety issues
SCC	Supplier Code of Conduct
Scorecard	A statistical record used by Welsh Water to measure achievement or progress towards a particular goal
SDG	Sustainable Development Goal
Security and Emergency	Issued by Welsh Government and DEFRA to the water sector to provide guidance on how to respond to major incidents
SEMD	Security and Emergency Measures (Water and Sewerage undertakers and Water Supply licence) Directive
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
Service Incentive Mechanism (SIM)	An Ofwat measure designed to improve the level of customer service that water companies provide.

Name	Description
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
SO	Storm Overflow – see CSO/SO above.
SOAF	Storm Overflow Assessment Framework
SSSI	Site of Special Scientific Interest
STEP	See Safety Takes Every Person
Storm tank	A tank into which, in wet weather, stormwater and wastewater is stored until the wastewater treatment works can treat it
SUDS	See Sustainable Urban Drainage
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	A sustainable drainage system is designed to reduce the potential impact of new and existing developments with respect to surface water drainage discharges
TNFD	Taskforce on Nature-Related Financial Disclosures
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
WASC	Water and Sewerage Company
Wastewater	Waste matter from household or non-household properties that is carried away from properties in sewers or drains
Wastewater treatment works	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	This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years
Water treatment works	Water treatment plants produce drinking water for public consumption or industrial water for manufacturing or other business operations
WOC	Water Only Company
WQ	Water quality
WRMP	See Water Resource Management Plan
WTW	See Water Treatment Works
WWTW	See Waste Water Treatment Works

B – REGULATION OF WATER COMPANIES IN WALES

Name	Description
Welsh Government	The Welsh Government has devolved authority over most matters pertaining to the regulation of the water industry in Wales.
Drinking Water Inspectorate (DWI)	The Drinking Water Inspectorate is a statutory body with duties and powers to develop and update drinking water quality regulations (which derive from EU legislation), monitor compliance with such regulations, and implement enforcement action where required. The Chief Inspector is appointed by the Secretary of State and by Welsh Ministers.
Natural Resources Wales (NRW) Environment Agency (EA)	Natural Resources Wales and the Environment Agency are the environmental regulators for Wales and England respectively, with important roles with respect to the regulation and planning of water companies. They set out water companies' environmental obligations in the National Environment Programme (NEP) in Wales, and the Water Industry National Environment Programme (WINEP) in England.
Consumer Council for Water (CCW)	The Consumer Council for Water (CCW) is a non-departmental public body of DEFRA and the Welsh Government established under the Water Industry Act 1991 (as amended) to represent the interests of consumers by handling complaints, acquiring and publishing information, providing advice, and investigating matters of interest to consumers. CCW is supported by regional committees established under the Act including a Wales Committee.
Ofwat	Ofwat is the economic regulator for the water industry. Its duties include protecting the interests of consumers, ensuring that water companies carry out their statutory functions, and furthering the resilience of water companies. Ofwat has a range of powers, including setting price limits and performance targets through the five-yearly Price Review process.
Department for environment, food and rural affairs (DEFRA)	Defra is responsible for improving and protecting the environment and so has a broad remit to play a major role in people's day-to-day life, from the food we eat and the air we breathe, to the water we drink. Defra aims to make our air purer, our water cleaner, our land greener and our food more sustainable. Its mission is 'to restore and enhance the environment for the next generation, leaving it in a better state than we found it'.

C – PR19 PERFORMANCE COMMITMENTS DEFINED

	Name	Description
Wt1	Water quality compliance (CRI)	Water Quality Compliance is assessed using the Compliance Risk Index (CRI). CRI measures risk arising from treated water compliance failures. 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.
Wt8	Lead pipes replaced	This measure records the reduction in the number of lead pipes in our water supply network.
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).
En4	Leakage (% reduction) – 3-year average	Leakage describes the water that is lost between the treatment works and the customer premises. We have a target to reduce leakage and this is measured using the percentage reduction of 3-year average leakage in Megalitres per day from the 2019/20 starting baseline.
En5	Per Capita Consumption (% reduction) – 3-year average	Per capita consumption (PCC) is the average amount of water used by each person each day. We have a target to reduce PCC and this is measured using the percentage reduction of 3-year average PCC from the 2019/20 starting baseline.
Sv1	C-MeX	C-MeX is a customer measure of experience and customer satisfaction. It is comprised of two survey elements: Customer Experience Survey – a customer satisfaction survey amongst a random sample of the water company's customers; and 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.

C – PR19 PERFORMANCE COMMITMENTS DEFINED
CONTINUED

	Name	Description
Sv2	D-MeX	D-N.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.
Bl2	Vulnerable customers on social tariffs	The number of residential customers receiving financial support via our social tariffs.
En6	Km of river improved	The cumulative length of river improved as a result of the company's actions to improve the health and aesthetics of rivers.
Ft10	Community Education	The total number of children and adults who have participated in the company's education programme each year.
Ft11	Visitors to recreational facilities	The total number of visitors to the company's recreational sites each year.
Co1	Reportable injuries	The number of individual injuries reported to the Health and Safety Executive under RIDDOR per annum.

D – WELSH WATER 2050 STRATEGIC RESPONSES

For convenience we set out below the 18 strategic responses from WELSH WATER 2050: REVIEW AND UPDATE MARCH 2022. That document also contains for each of the strategic responses an update on the latest available evidence, research and innovation.

Strategic Response	Description
1. SAFEGUARDING CLEAN DRINKING WATER THROUGH CATCHMENT MANAGEMENT	Catchments as a first line of defence: We will face increased levels of pesticides, fertilisers, nutrients and pathogens in raw water, and increased turbidity 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	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, whilst recognising the possible need to support other parts of the UK
3. IMPROVING THE RELIABILITY OF DRINKING WATER SUPPLY SYSTEMS	Faced with an increased risk of outages due to agricultural run-off, extreme weather events, terrorism, and cyberattacks, we will build more flexibility and integration into our water treatment and supply systems.
4. PROTECTING OUR CRITICAL WATER SUPPLY ASSETS	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	Ageing water mains and more extreme weather events increase the risk of supplying water which is temporarily discoloured or has a poor taste. This will be addressed through a targeted replacement of iron mains. We aim to achieve 0.8-1.3 contacts per 1,000 population by 2050.
6. TOWARDS A LEAD FREE WALES	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.
7. WORKING WITH CUSTOMERS AND COMMUNITIES	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	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	Purpose of Strategic Response: 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	Faced with increasing customer expectations for a good service at all times, we will address the longstanding service complaints of 'worst served customers' to ensure that everyone receives an acceptable level of service. We will not charge customers when service does not meet our service standards.
11. EMPLOYER OF CHOICE	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.

D – WELSH WATER 2050 STRATEGIC RESPONSES
CONTINUED

Strategic Response	Description
12. LEADING EDGE CUSTOMER SERVICE	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. SMART WATER SYSTEM MANAGEMENT	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, thereby solving problems before they impact our business or the environment.
14. SUPPORTING ECOSYSTEMS AND BIODIVERSITY	Biodiversity faces threats including habitat loss, fragmentation and overexploitation. 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.
15. USING NATURE TO REDUCE FLOOD RISK AND POLLUTION	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 the development and implementation of sustainable urban drainage systems. We will aim to install sustainable drainage systems in cities and major conurbations (Swansea, Cardiff, Newport, Wrexham, Chester) in partnership with local authorities, of highest risk.
16. CLEANER RIVERS AND BEACHES	With increasing pressure on the natural environment from population growth, changing land use, climate change and new sources of pollution we will improve our wastewater assets to do our part to help achieve 'good' ecological status for our rivers, lakes and coastal waters.
17. PROTECTING OUR CRITICAL WASTEWATER ASSETS	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. ACHIEVING NET ZERO CARBON EMISSIONS BY 2040 AND PROMOTING A CIRCULAR ECONOMY*	Faced with a changing climate and increased energy costs we aim to reduce our total carbon emissions by 90% by 2030 and achieve carbon neutrality by 2040. We will also maximise opportunities to reuse treated water and other potentially valuable natural materials, contributing to the circular economy in our local region.

E – ESG OBJECTIVES

For convenience we set out below the 10 ESG objectives from our ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRATEGY.

ESG Objective	Description
1. LONG-TERM PLANNING AND SUSTAINABILITY	We are custodians of assets that will be relied upon to provide our essential services, and minimise impact on the environment, for many generations to come. Our corporate structure means we are not driven by shareholder dividends – we plan for the long term and take into account the needs of future generations of our customers. We will also work to ensure our procurement policy is sustainable and supports local businesses and the circular economy more generally
2. ACHIEVING OUR NET ZERO CARBON STRATEGY	We are committed to achieving net zero carbon emissions of both operational and embedded carbon by 2040 – corporate.dwrcymru.com/en/ journey-to-zero We will work to ensure continuous improvement of our processes in order to minimise our impact on the environment and we ask our key supply chain partners to help us design innovative "green, nature based" solutions that benefit the environment and society generally, within the fulfilment of our functions.
3. ADAPTING OUR ASSETS AND SERVICES TO MITIGATE CLIMATE CHANGE RISKS	We will continue to adapt our assets to ensure the services we provide are resilient to the impacts of climate change and can meet the challenges of economic development, population growth, and changes in customer expectations. We must also mitigate our carbon footprint (see 4 below) so as to reduce to zero our contribution to climate change by 2040
4. WORKING TO CREATE TANGIBLE BENEFITS IN THE COMMUNITIES WE SERVE	We will establish a clear baseline for current environment, social and governance issues and will measure improvements against that, with a principal of "net gains" for our operational activities and capital projects programme which deliver tangible benefits to our communities.
5. ENSURING AFFORDABILITY	During 2021-22 we provided financial assistance (via social tariffs and other forms of support) to a total of 139,000 customers and we assisted many more with water efficiency advice and metering, to help them manage their water bills. We are committed to continuing to provide this level of financial assistance to customers during the period 2020-25.
6. ENGAGING WITH OUR CUSTOMERS	We engage with our customers on a regular and long-term basis, through research and focus groups, our community fund grants, and Water Resilient Communities programmes. Customer expectations are changing and developing, and we need to ensure that we meet these expectations whilst also focusing on the path to achieving the long-term goals we have set in Welsh Water 2050. We are developing a Sustainable Procurement policy, which will deliver benefits to communities through a more localised supply chain. We are also introducing user-centred design for improvements to customer service, and working with a wide range of stakeholders and customers on projects such as the Brecon Beacons Mega catchment initiative.
7. ATTRACTING AND RETAINING A DIVERSE WORKFORCE TO REFLECT OUR COMMUNITIES	Our most important asset is our workforce, and attracting and retaining people with the right skills and diversity of experience, background, and personal characteristics to meet the future challenges that our business will face is a key priority. Our culture and values are embodied in our workplace policies such as our Health, Safety & Wellbeing policy, support an inclusive workplace where colleagues can take pride in "Earning the Trust of our Customers Every Day".
8. ADAPTING TO FUTURE CHALLENGES	Our corporate structure and the absence of shareholder dividends allows us to focus on the long term, as well as deliver the needs of customers today. The ESG Committee will focus on monitoring progress against our goals and considering and responding to ESG risks to ensure that we adapt to these and build our responses into our company strategy. The joint Boards of Glas Cymru Holdings Cyf. and Dŵr Cymru Cyf. also monitor strategic risks and considers with the Executive the potential for emerging and "black swan" risks to impact our business and the services we provide.

ESG OBJECTIVES CONTINUED

ESG Objective	Description
9. DEMONSTRATING ACCOUNTABILITY	We demonstrate accountability through our transparent corporate governance, focusing our business on sustaining and protecting the natural resources available to us, and engaging directly with the communities we serve. We are committed to transparent reporting of our performance and the challenges facing the business, both in our corporate reporting and through our publication scheme where we make information available on our website – corporate.dwrcymru.com/en/community/environment/environmentalinformation-regulations We ensure fair employment practices through our recruitment and HR policies, and we ask our suppliers to sign up to our Supplier Code of Conduct and to take steps to prevent unfair employment practices. Our operational strategies prioritise our environmental commitments – to minimise our environmental footprint and enhance our environment and communities wherever we can.
10. WORKING COLLABORATIVELY	In many areas we cannot achieve our objectives by simply working alone; we are already working in partnership with regulators, Governments, customers and other stakeholders to achieve our environmental objectives. We will draw on our experience of contributing to the development of the Wye Nutrient Management Plan where a number of different organisations and sectors worked together towards meeting phosphorous targets (environmental regulators, council bodies, third sector organisations and Welsh Water). A similar collaborative approach is being developed for other Welsh SAC (Special Areas of Conservation) rivers. We need to work closely with Local Authorities and other local organisations, whose support will be vital in helping us manage surface water drainage issues and thereby reduce discharges from SOs.

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