GLAS CYMRU

PRELIMINARY RESULTS

2024

Dŵr Cymru
Welsh Water

COMPANY NUMBER: 09917809

CONTENTS

FOREWORD TO THE PRELIMINARY RESULTS ANNOUNCEMENT

Basis of Preparation

The following announcement of preliminary results includes information which has been extracted directly from the Glas Cymru Holdings Cyfyngedig (Glas Cymru) Annual Report and Accounts for the year ended 31 March 2024, approved by the Board on 6 June 2024.

The audited Annual Report and Accounts will be received by Members at the Glas Cymru Annual General Meeting on 5 July 2024. The Annual Report and Accounts will also be made available online at dwrcymru.com. The financial information does not constitute statutory accounts within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards (IFRS). The Company's auditor, Deloitte, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2024. The auditor's report did not include reference to any matters to which the auditor drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. The consolidated financial statements will be filed with the Registrar of Companies following the Company's Annual General Meeting.

This report contains certain forward-looking statements with respect to the future business prospects and strategies of the Glas Cymru Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. A number of factors exist which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Past performance is not a guide to future performance and persons needing advice should consult an independent financial adviser.

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 milion 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

– 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 Dwr 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

CHAIR OF THE BOARD'S STATEMENT
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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. 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 remain 2nd placed 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.

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

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.

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 2nd 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.

CHIEF EXECUTIVE'S MESSAGE
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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.

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.

I

> 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

CHIEF EXECUTIVE'S MESSAGE
CONTINUED

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

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 (£380 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 and our long-term viability assessment.

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.

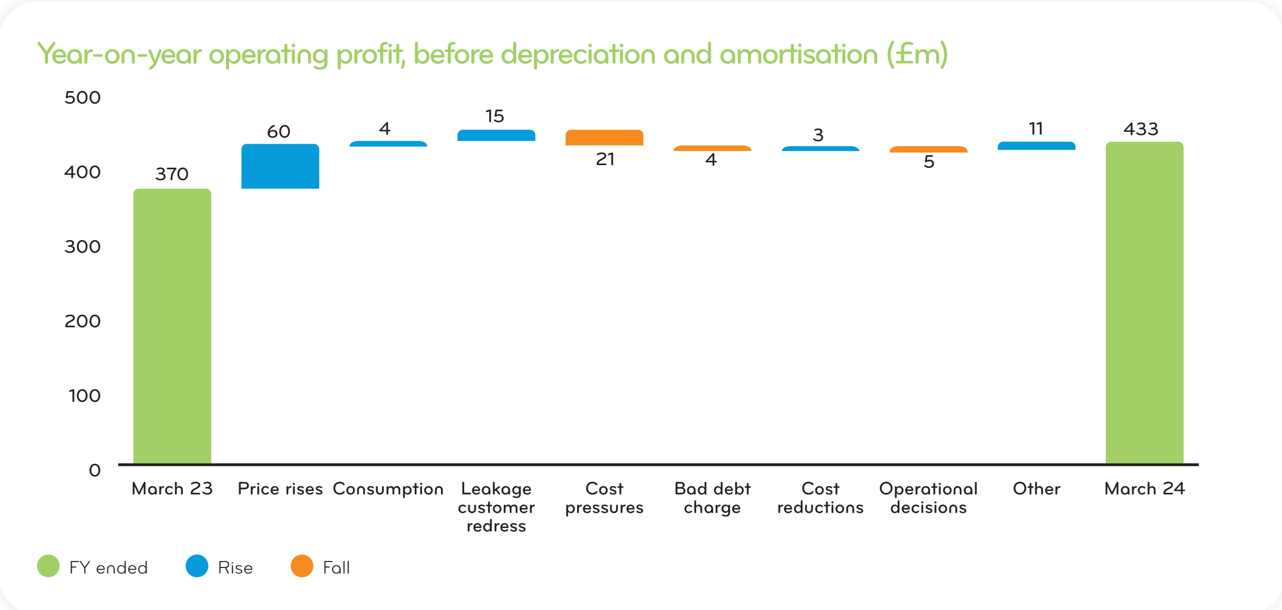
Financing Needs

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.

CFO'S REVIEW
CONTINUED

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	–



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.

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.

CFO'S REVIEW
CONTINUED

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:

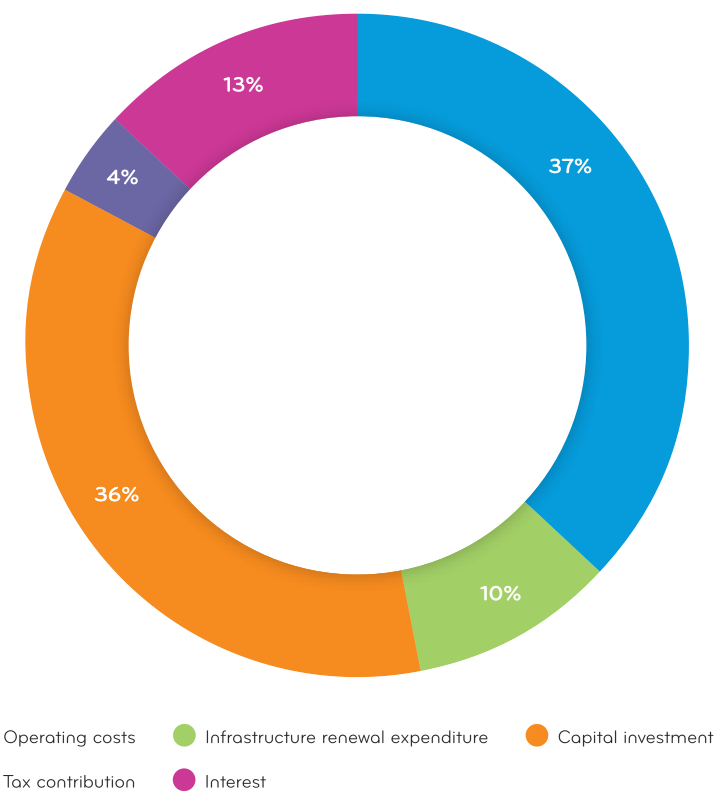
	Year ended 31 March			
Cash movements	**2024**	**2023**	**Change**	**Explanation**
New loan	**150**	–	150	In December 23 the Group took out a £150 million loan for 7 years as part of its Treasury Strategy.
Net movement in borrowings	**(189)**	(76)	(113)	Net repayment of borrowings increased with the 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 £382 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 (%)



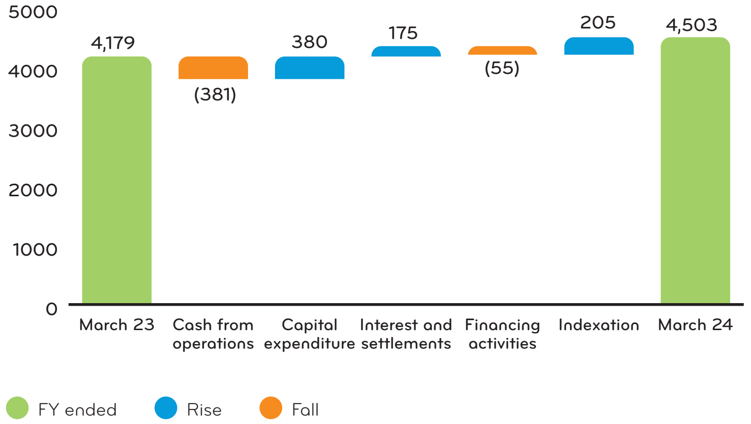
Net Debt

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.

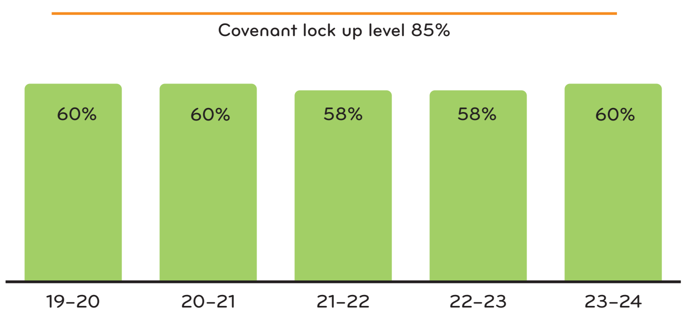
We aim to ensure that enough funding is available to meet our forecast financial needs as well as having an adequate level of headroom for reasonably plausible contingencies. Our average debt maturity is relatively long, at 9.2 years (31 March 2023: 10.4 years), reflecting the long-term nature of our 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.

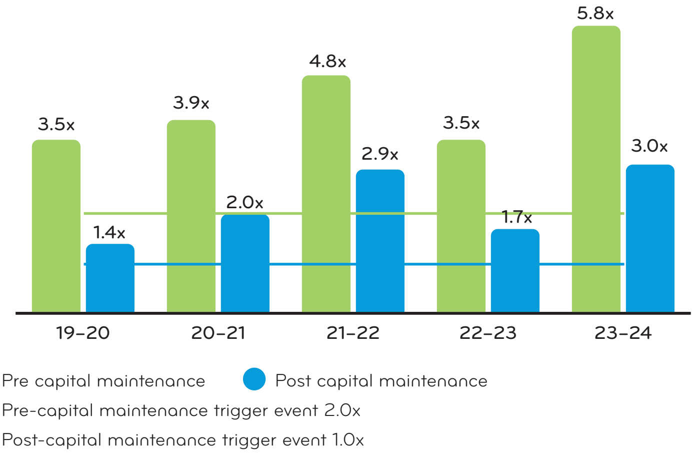
Year-on-year debt movements (£m)



Net debt/RCV



Senior interest cover ratio



CFO'S REVIEW
CONTINUED

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

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 were approved by the Board of Directors on 6 June 2024 and were signed on its behalf by:

P Perry **M Davis**

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**

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.