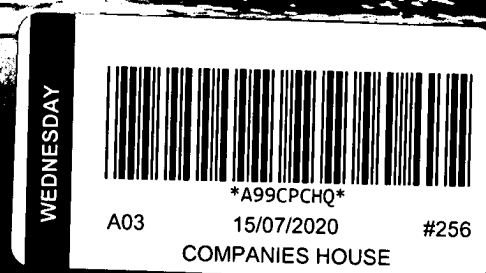


# GLAS CYMRU

---

ANNUAL REPORT AND ACCOUNTS 2019-2020

Company number: 09917809



**Registered office**  
Pentwyn Road  
Nelson  
Treharris  
Mid Glamorgan  
CF46 6LY

---

### WHO WE ARE

We are not-for-shareholder, which means that, unlike other water and wastewater companies across England and Wales, all gains are applied for the benefit of our customers. A company "limited by guarantee", Glas Cymru was formed in 2000 solely to acquire and run Dŵr Cymru Cyfyngedig (referred to throughout this report as Welsh Water), the regulated water and wastewater provider, on a not-for-shareholder basis. This means we do not pay dividends, as we do not have shareholders. Any money we make goes back into the business to benefit customers. It also means we can work to provide this benefit over the long-term - we can plan our investments to ensure we continue to provide the best services we can in the future and to work to protect future generations from potential challenges like climate change.

---

### 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.

---

### WHAT WE DO

In order to deliver our purpose, we:

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

---

### OUR VISION AND CULTURE

Our vision is simple: **TO EARN THE TRUST OF OUR CUSTOMERS EVERY DAY.**

The culture of Welsh Water has evolved over time to support the achievement of our vision:

- We are a highly professional organisation where colleagues are proud to deliver an essential service to 3.1m people across our supply area
- We have a strong focus on the outcomes we deliver for our customers and the environment
- We constantly strive to do a better job through innovation, embracing change and the sharing of best practice
- We recognise that to achieve the best outcomes we need to have the best people who are highly motivated and engaged. We actively promote a more diversified workforce, drawing talent from all parts of the population we serve, and our people reflect the diversity of those communities
- We recognise that inclusivity is key to ensuring everyone can develop to their full potential and enjoy a healthy and rewarding career

---

### OUR VALUES

Our culture is encapsulated in our six company values:

- **TRUSTED** to do the right thing
- **PROUD** to put our customers first
- **SAFE** at all times
- Achieving **EXCELLENCE** in everything we do
- **HONEST** with everyone
- **OPEN** to new ideas

# HIGHLIGHTS IN 2019-20

## FINANCIAL

### BOND ISSUE

**£500m**

@ 1.5% + RPI

### GEARING

**60%**

ON TRACK

### STRONG LIQUIDITY

**£837m**

FUNDS AVAILABLE

### INCREASE IN AVERAGE ANNUAL BILLS

**Below rate of inflation**

(FOR 10TH CONSECUTIVE YEAR)

## OPERATIONAL

### OFWAT'S NEW C-MEX MEASURE

**Rated 1st in the sector**

IN ENGLAND AND WALES FOR CUSTOMER SERVICE

### CUSTOMER TRUST

**Highest ever rating**

FOR THE 2ND CONSECUTIVE YEAR

### REDUCING LEAKAGE

**Achieved our annual target**

FOR THE 5TH CONSECUTIVE YEAR

### HOUSEHOLD RETAIL COMPLAINTS

**26% reduction**

### LEVELS OF SERVICE FOR DEVELOPERS

**Maintained our upper quartile position**

FOR THE 5TH CONSECUTIVE YEAR

### POLLUTION LEVELS

**Beaten regulatory target**

FOR REDUCTION IN POLLUTION INCIDENTS

## CONTENTS

Highlights in 2019-20 01

## STRATEGIC REPORT

|                               |    |
|-------------------------------|----|
| Chair of the Board's Message  | 05 |
| Chief Executive's Message     | 10 |
| Chief Executive Succession    | 15 |
| Our Stakeholders              | 20 |
| Section 172(1) Statement      | 24 |
| Business Model                | 26 |
| Market and Regulation         | 32 |
| Our Strategy                  | 34 |
| Our Performance               | 40 |
| Financial Review              | 65 |
| Our Risks                     | 70 |
| Long-Term Viability Statement | 78 |
| Our Responsibility            | 82 |

## GOVERNANCE REPORT

|                                          |     |
|------------------------------------------|-----|
| Chair of the Board's Introduction        | 98  |
| Governance at a Glance                   | 100 |
| Board of Directors                       | 102 |
| Corporate Governance Report              | 108 |
| Directors' Report                        | 154 |
| Statement of Directors' Responsibilities | 156 |

## FINANCIAL RESULTS

|                                   |     |
|-----------------------------------|-----|
| Independent Auditor's Report      | 158 |
| Financial Statements              | 166 |
| Notes to the Financial Statements | 174 |

## APPENDICES

|                                  |     |
|----------------------------------|-----|
| Glossary                         | 210 |
| Measures of Success: Definitions | 213 |
| Our Corporate Structure          | 215 |



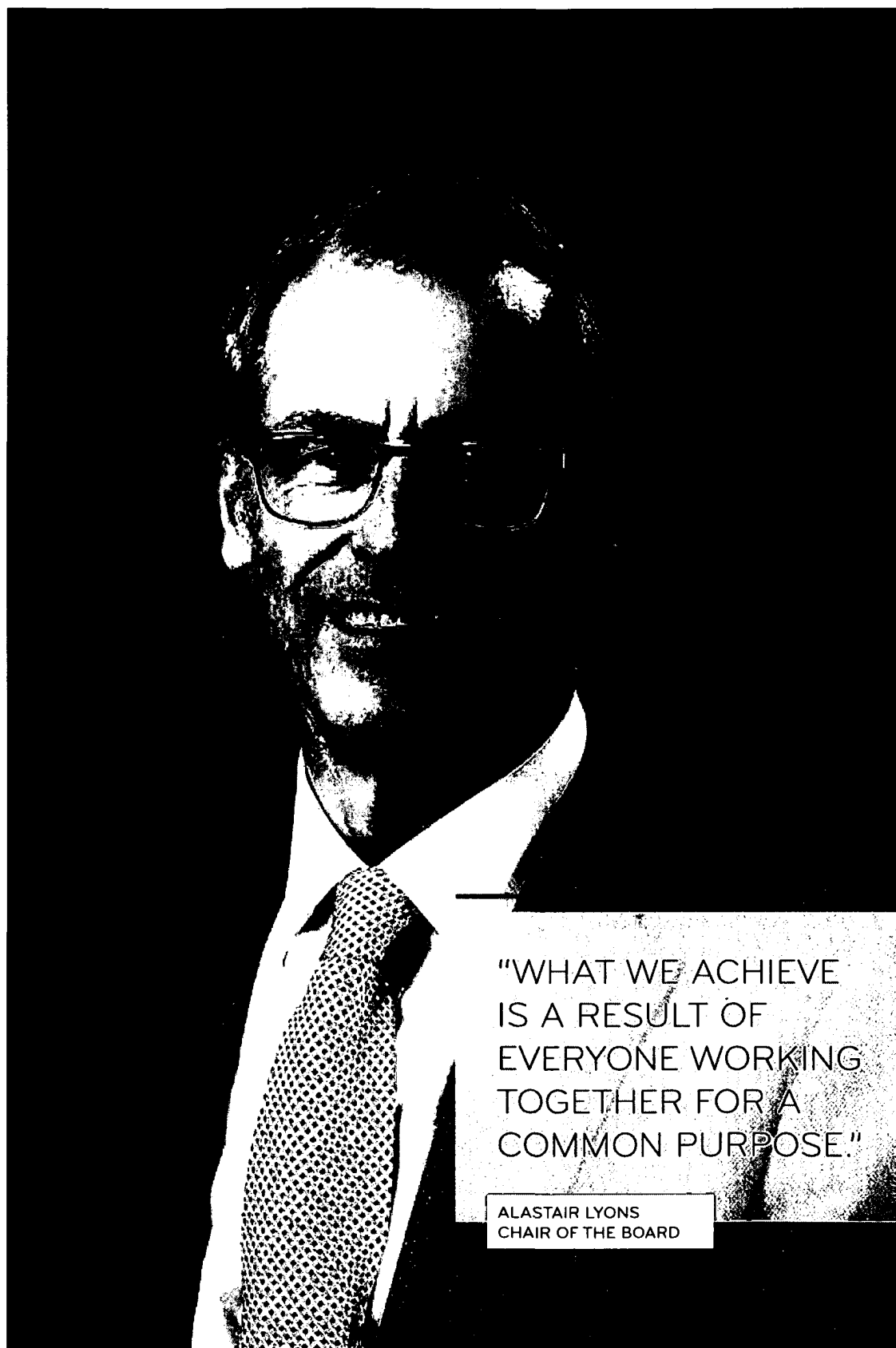


# STRATEGIC REPORT

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

---

|                                     |    |
|-------------------------------------|----|
| Chair of the Board's Message        | 05 |
| Chief Executive's Message           | 11 |
| Chief Executive Succession          | 15 |
| Our Stakeholders                    | 20 |
| Section 172(1) Statement            | 24 |
| Business Model                      | 26 |
| Market and Regulation               | 32 |
| Our Strategy                        | 34 |
| Our Performance                     | 40 |
| — Our Outcomes                      | 42 |
| — Look Back: 2015–2020              | 44 |
| — Look Forward: 2020–2025           | 60 |
| Financial Review                    | 65 |
| Our Risks                           |    |
| — Our Approach to Risk Management   | 70 |
| — Key Risks Faced by the Group      | 72 |
| — Emerging Risks faced by the Group | 77 |
| Long-Term Viability Statement       | 78 |
| Our Responsibility                  | 82 |



"WHAT WE ACHIEVE  
IS A RESULT OF  
EVERYONE WORKING  
TOGETHER FOR A  
COMMON PURPOSE."

ALASTAIR LYONS  
CHAIR OF THE BOARD

# CHAIR OF THE BOARD'S MESSAGE

**In my comments I seek to highlight what has absorbed the business over the past 12 months and to reflect on what has, and will, have major influences on the Company, our customers, and our other stakeholders.**

## COVID-19

I must, therefore, start by saying a few words about how Welsh Water is reacting to the COVID-19 pandemic. Our primary concern is always the safety of our people and our customers, and we have fundamentally changed the way much of the Company works, moving swiftly to around two thirds of our colleagues working effectively from home across a wide range of business functions, including dealing from home with all customer calls, web chats and other forms of contact. Our infrastructure team did an amazing job reconfiguring the business in a few short weeks. Many of our operational teams have needed to remain active in the community on essential maintenance work, construction work and leakage detection to maintain supply through the summer, and reacting to bursts and blockages. Where this has been necessary we have implemented safe working practices to protect both themselves and the wider public. We are very conscious of the financial impact of the crisis on our customers and we have used our social media platforms to promote the services that we offer, in particular our range of affordability tariffs for those customers who genuinely struggle to pay, and our Priority Services Register for customers with additional needs in the event of an incident such as a burst main. Our management team has been marvellously proactive in planning how best to respond to a rapidly changing picture. This has involved ensuring that we can continue to operate our clean and

wastewater facilities and respond to issues affecting our customers despite the impact of the virus on our available resource. As we do not know how long this situation will continue our planning must, and does, cover all foreseeable eventualities.

## STORM DENNIS

I introduced my comments last year by saying that the year had been dominated by two things – the weather and preparations for the next regulatory price review, PR19. Until February I had hoped to be able to say that this last year the weather had taken more of a back seat, with neither the severities of Storm Emma nor the drought of the summer of 2018. However, my hopes were dashed by Storms Ciara and even more so by Storm Dennis, so the dominant impacts in 2019–20 on our plans to do the best we can by our customers ended up the same as in the previous year. Planning for a no-deal Brexit also consumed a lot of our attention given our dependence on imported chemicals for water treatment, and this planning has been helpful in dealing with procurement issues in the current pandemic situation.

Once again, the business demonstrated its ability to respond rapidly, comprehensively, and wholeheartedly to events outside of its control that threaten to disrupt our service to customers. While we had been "warmed up" by Storm Ciara the previous week, the damage caused by Storm Dennis to our infrastructure was arguably among the worst we have ever experienced over such a short period. Within the UK it was South Wales that received the highest red level of severe weather warnings for rain, and across the area records were comprehensively broken. At our Caban Coch dam in

## Rated 1<sup>st</sup>

FOR CUSTOMER SERVICE  
(OFWAT C-MEX MEASURE)

## £18m

TOTAL WEATHER RELATED COSTS

the Elan Valley, the water level was the highest since records began in 1908. At our Pontsticill works serving over 140,000 properties near Merthyr Tydfil, eight landslides occurred close to the works: one so large that it damaged one of the critical trunk mains connecting the works into supply and also one of the main electricity supply cables to the works. With the Wye peaking at seven metres depth at the bridge in Monmouth we had to evacuate our Monmouth treatment works, and much of the electrical and mechanical equipment at the works was destroyed by flood water. We commissioned our largest ever mobile tanker operations to maintain supplies to the 7,400 affected properties in the Monmouth area, with over 50 tankers supporting the communities, albeit some of them having to take a 40 mile diversion to reach their discharge points because of the closure of many of the local roads. On the waste side of our business we were temporarily unable to access 26 treatment works, the largest being Llanfoist near Abergavenny and Eign near Hereford, and 18 pumping stations. Eleven sewer pipe bridges were completely washed away.

## CHAIR OF THE BOARD'S MESSAGE

The response both from our own people and from our supply chain was amazing, resulting overall in minimal impact on our customers. Teams worked around the clock to replace and repair damaged equipment and get clean and wastewater works back operating. Colleagues from across the business volunteered to help, establishing bottled water distribution points in Monmouth in the event that we were unable to maintain supply. Many who had been away from work on half-term holiday came in to help with the response alongside their colleagues. The strength of teamwork and the commitment to do the best we could by our customers was an enormous credit to the culture and values of the Company and the quality of our leadership. In turn, we had a fantastic response from our customers, our teams being offered tea and biscuits by the communities they were supporting.

We have to recognise that events like Storm Dennis are likely to become more frequent and severe until such time as there is a comprehensive global response to climate change. Flood defences that have been built in previous years in response to past flood events were overtopped this time. Long-term mitigation in the context both of our Welsh Water 2050 vision, and our planning for the next price review period starting in 2025, will be essential to protect current and future customers. We are, therefore, undertaking a post-incident review to assess the opportunities to further improve our emergency procedures and to identify future investment priorities to mitigate climate risk.



### PR19

When I wrote last year, we were at the stage of having received and responded to Ofwat's Initial Assessment of our plans for the five-year period starting April 2020, and we were awaiting their Draft Determination in July. This was duly received and responded to, as required, by the end of August. Having considered Ofwat's proposals in the round we could only conclude that a plan of that shape was not financeable as it did not allow us to maintain credit ratios that support the investment grade criteria required by rating agencies. With our particular not-for-shareholder constitution, this was critical for Welsh Water as we have no shareholders to act as lender of last resort: we have to maintain access to the debt markets. At the same time, we considered we should not just identify the problem but also propose a solution – when we responded to Ofwat on the Draft Determination we, therefore, included a variant on our original plan that took on board some of Ofwat's proposed

changes but derived a plan that, while still very demanding to achieve, would be financeable and delivering on the principal themes that we had taken from our research with customers. Having explained our thinking to Ofwat it was then a case of waiting for the Final Determination that was published on 16 December 2019. Without going into deep technical detail, Ofwat had flexed their draft plan sufficiently for us to conclude that it should now be financeable. We, therefore, accepted the plan in the round, despite it remaining a very challenging settlement and having a number of misgivings, in particular as to Ofwat's imposition of common performance targets on all companies, some of which we believe may not be achievable given our company's particular operating environment. That said, our management have set about working out how best to progress towards these demanding targets in order to minimise the risk of incurring the substantial penalties provided in Ofwat's plan for non-performance.

### WHAT, THEREFORE, WILL PR19 MEAN FOR THE BUSINESS AND OUR CUSTOMERS?

- By the end of the period 2020–25, average household bills will be 6% lower in real terms than they are now, this following 10 years during which such average bills have already been reduced by 17% in real terms.
- Having already cut operating costs by 1% over the last five-year price review, and by 9% since 2001, we have identified and will implement a further £38m per annum of efficiency savings over the five years contributing to our ability to bring bills down.
- While we will be able to make some progress in improving the resilience of our assets for future generations, as, for example, a major new trunk main to connect the east and west sections of our south Wales networks, we will not get as far as we had hoped towards our Welsh Water 2050 vision.
- The imposition by Ofwat of common performance targets across all companies for, such as, service interruptions and sewer flooding without regard for local differences will create a real risk of significant financial penalties despite substantial progress against historic performance.

Challenges of this scale can only be tackled if the whole organisation is behind the plan. We were, therefore, very appreciative to have agreed with our recognised trades unions a new five-year Working Together Agreement that underpins the changes in working practices that will be necessary to achieve the required efficiencies, and for this, in turn, to be approved by their members.

### FINANCING

The plan will also need financing, particularly given that over its five-year duration, around £1 billion of our existing debt will fall due for renewal. We were, therefore, also very pleased to have gone to the market in February 2020 to take advantage of the low interest rate environment and considerable appetite for our debt to raise £500 million of new money. While Ofwat's tight financial settlement has put pressure on the ratings of the sector as a whole, our revised reduced ratings of A-/A3/A remains the best in the sector. The debt maturing during PR19 carries an average interest cost of 5% – good value when it was taken out in 2001 but now replaced at an anticipated cost of 2%, a saving that will make a material contribution to achieving the tight financial requirements of PR19.

### THE LONG-TERM VIEW

In conclusion on PR19 we know what we have to do, we have a plan to achieve it that accords with our customers' priorities, and we have the people and the necessary financing credentials to deliver it. We now need to reflect on the progress that this plan will enable us to make towards our Welsh Water 2050 vision and determine the priorities we will seek to advance in our submission for the next price review covering the succeeding five years starting in 2025. While the overriding trends to which we must respond over the next 30 years are unlikely to have changed materially, we will have new insight into the form they are likely to take and the speed with which they will come about. Once again we will work with all our stakeholders, in particular those that determine political and regulatory priorities, to establish where we should focus in the best long-term interests of our customers.

### OUR PURPOSE

We must obviously plan for what we want to achieve in the next five years but near-term plans require a longer-term context and an understanding by the business and its stakeholders as to what is its purpose. Its purpose is why it exists, defining the contribution it makes to its stakeholders, both those directly involved with it – its employees, customers, and suppliers, but also those indirectly benefitting from its activities – communities where it is based or operates, and society more generally through the impact it has on the environment and on delivering society's goals. Many companies are now writing purpose statements in response to the development within investor thinking over recent years that the businesses in which they are invested should be about more than just the creation of shareholder value. In the case of Glas Cymru the purpose of the Company came first, with the ability to then design on a blank sheet the optimal corporate form and ownership model for the Company to deliver that purpose.

In December we held an Extraordinary General Meeting of our members to consider, and subsequently approve, the writing of Glas Cymru's Purpose Statement into our Articles of Association, in order to formalise our commitment to public service and our singular customer focus while recognising the long-term nature of our business:

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

# CHAIR OF THE BOARD'S MESSAGE

We use the term "better" to signify both better than what has gone before but also better than under other, more usual, ownership models.

Our Glas Purpose and Vision, a comprehensive statement of our Purpose, Vision, Culture, and Strategy in the context of our Long-Term Mission as set out in Welsh Water 2050, is published on our website and can be accessed at [dwcymru.com/AR2020-Statements](http://dwcymru.com/AR2020-Statements)

## LEADERSHIP

Plans, people, and finance are nothing without leadership. This also changed materially at this transition from one price control to the next with Chris Jones retiring at the end of March. Chris had been CEO since 2013, and he is succeeded by Peter Perry, who had been our Managing Director for the past two years.

In 2001 Chris and former Managing Director, Nigel Annett, assembled a team committed to securing the ownership of the then distressed Company Welsh Water and implemented a new corporate structure. The successful acquisition was financed by a £1.9 billion bond issue, then the largest non-sovereign bond issue in the UK. Despite initial scepticism in some quarters, the last 19 years have provided ample evidence of the inherent strengths of the not-for-shareholder model and the motivational leadership of its founding team.

Welsh Water now ranks as the water company in England and Wales most trusted by its customers; has the highest customer satisfaction ratings of all UK utility companies; and has returned over £440 million in value to customers since 2001 through lower bills, additional financial support for those struggling to pay, and accelerated

investment to improve services to customers. This is against a backdrop of a decade of below-inflation price increases for its customers, record levels of capital investment (over £6 billion since 2001), significantly improved environmental performance, and an annual economic boost to the Welsh economy of up to £1 billion.

Chris has been an inspirational Chief Executive, ever-conscious of his role as a custodian of long-term assets as evidenced by Welsh Water 2050 – our ambitious long-term vision. The Company's direction under his leadership reflects his belief that it is our collective duty to tackle environmental challenges including climate change; his desire to increase the diversity of the workforce to better reflect the whole of our customer base; and his drive to ensure that customers have a strong voice in the strategic direction of the Company. He is passionate in his support of Welsh language service provision, having learnt Welsh to a high standard himself, and committed to our communities in Wales, supported through projects such as our innovative Water Resilient Communities and award-winning sustainable urban drainage initiative, RainScape.

I am intensely sorry to be losing Chris' commitment, intellect, deep integrity and a belief that we are not here for what we can get out of it ourselves but for what we can contribute more broadly to the society of which we are a part. We were very grateful to Chris for his willingness to postpone his retirement for several weeks past 1 April, his continuing as an Executive Director until 15 May in order to increase the bench strength of our senior leadership during the COVID-19 emergency.

We are extremely fortunate to have someone of Peter Perry's stature, experience and capability to succeed Chris to lead the

business through what will, over the next five years at least, be a highly challenging regulatory environment. It should, in my view, be every Chair's objective to create planned internal succession for the most senior executive roles, all the more so when the business in question has a very distinctive identity and culture that sets it apart from the rest of the industry of which it is a part. I am delighted to have achieved that objective. Peter has hit the ground running with strong decisive leadership during the COVID-19 crisis and a clear articulation to the business of our strategic and operational objectives for the new five-year price control, reshaping the executive leadership to align with the priorities of this next phase in our development. As his own message in this report demonstrates, he shares Chris' unshakeable commitment to our vision – to earn the trust of our customers every day – and to our ethos of always acting in the interests of our customers and operating in a socially responsible manner.

I would also take this opportunity to congratulate Mike Davis, our new Chief Financial Officer, on his appointment to the Board with effect from 1 January 2020, leading finance, strategy, and regulation. As Director of Strategy and Regulation for the past 10 years, Mike has led three price reviews and has been a central member of the Welsh Water executive team advising the Board. This appointment follows Peter Bridgewater leaving after five years in the role of Finance and Commercial Director. I would like to thank Peter for his contribution to the business over that time, having broadened his area of responsibility outside of the pure financial to provide oversight over the commercial activities that lie outside of our licence, and also over the development of our information technology capability.



## THE BOARD

We are also saying goodbye to two long-standing Non-Executive Directors who are not offering themselves for re-election at this year's AGM, having reached the end of their maximum three terms on our Board. Menno Richards, who is our Senior Independent Director, joined the Board in 2010 and has served on several of our Board committees during her term of office. She has also been part of our Independent Members Selection Panel and has developed strong relationships across our member base, forging a valuable connection between the Board and the Glas Membership. She has demonstrated a passionate commitment to promoting the interests of our customers, bringing to the Board a deep understanding of the environment within which we operate in Wales. Anna Walker, our Remuneration Committee Chair, also retires this year, having been first appointed in 2011. As a former Chair of the Office of Rail Regulation, Anna has a great

insight into the regulatory mindset, making a material contribution to our regulatory relationships and, in particular, to our preparations for PR19.

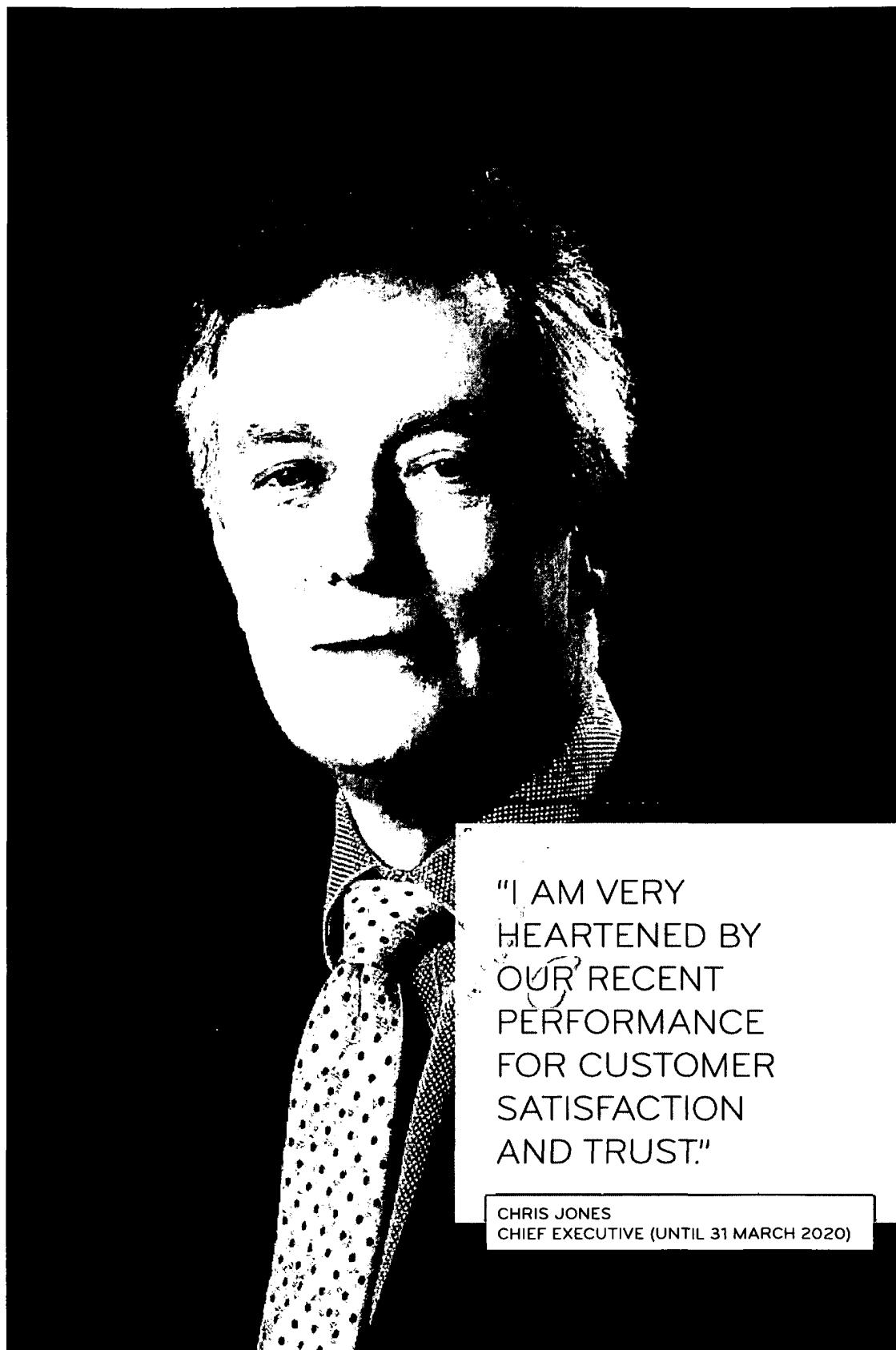
In the context of these retirements, we are delighted to have had Debra Bowen Rees join us with effect from 1 January 2020 as a Non-Executive Director and a member of our Quality and Environment Committee (QEC), which has operational oversight of our wholesale clean water and wastewater activities. We ask all new Non-Executive Directors to join this Committee for at least a year as part of their learning our business, but given Debra's very strong operational and customer-facing background, currently as Chief Executive Officer of Cardiff Airport, and previously with the military, we are very pleased that she will be an ongoing member of the QEC. Her experience of managing substantial and ambitious change and investment projects will be invaluable as we tackle the long-term challenges set out in our strategic vision, Welsh Water 2050.

## MY THANKS

On behalf of our Board, my thanks to everyone in Welsh Water who has worked so hard over the past year, and particularly during the current crisis, to provide essential water and environmental services to the people and communities we serve. We all have our individual roles to play – directors, executives, managers, employees, members – but what we achieve is the result of everyone working together for a common purpose. Like a jigsaw we cannot deliver unless everyone plays their part and the quality of our delivery is testament to what Welsh Water people achieve.

**Alastair Lyons CBE**  
Chair of the Board

5 June 2020



"I AM VERY  
HEARTENED BY  
OUR RECENT  
PERFORMANCE  
FOR CUSTOMER  
SATISFACTION  
AND TRUST."

CHRIS JONES  
CHIEF EXECUTIVE (UNTIL 31 MARCH 2020)

# CHIEF EXECUTIVE'S MESSAGE

**This is my seventh, and last, report as Chief Executive of Welsh Water, written in the early stages of our response to the unprecedented challenges of the COVID-19 pandemic. It is a good opportunity both to reflect on the progress that our Company has made over its first 20 years and to consider how we should be preparing to meet the challenges of an uncertain future.**

## LOOKING BACK

Back in 2000, Nigel Annett and I first conceived of the idea of Glas Cymru – a commercial, non-shareholder-company limited by guarantee, which would seek to acquire Welsh Water – we foresaw that such a corporate model would have many commercial and social advantages. From a financial point of view, the non-shareholder structure meant that we would not need to distribute funds from the business as dividends and we believed that the capital markets would be very attracted to the long-term low-risk bonds that we would need to issue. We also felt that the new ownership model would help to address the problem of "legitimacy" that some customers at the time perceived with for-profit ownership of essential public services.

After a considerable struggle, Glas Cymru was able to acquire Welsh Water in May 2001, following a successful £1.9 billion bond issue. In the period since, we have maintained very strong support in the capital markets, as demonstrated by a credit rating that is best-rated in the water sector, despite a recent downgrade in the aftermath of the PR19 Regulatory Review. We were pleased to have secured a large portion of our financing need for the next five years in a very well supported fixed rate bond issue in February 2020, raising £500 million through a 1.375% 2033 senior bond and a 1.625% 2026 junior bond. Over the last 20 years, Welsh Water has returned over £440 million of value to our customers, including last year £8 million funded by the Company to help low income customers to pay their water bills. Through our sustained investment programme of some £6 billion since 2001, in part funded by "return of value" by the Company, we have made huge strides in improving the quality of our service to our customers and in the quality of the environment around us, on which we all depend. Some examples of the improvements in service since 2001 are shown in the panel adjacent.

## 2019/20 VS. 2000/01 PERFORMANCE DATA

**RIDDORs:**  
(SERIOUS SAFETY INCIDENTS)

**2020: 8**  
improved from 2001: 42

**SERIOUS POLLUTIONS**

**2020: 2**  
improved from 2001: 9

**LEAKAGE**

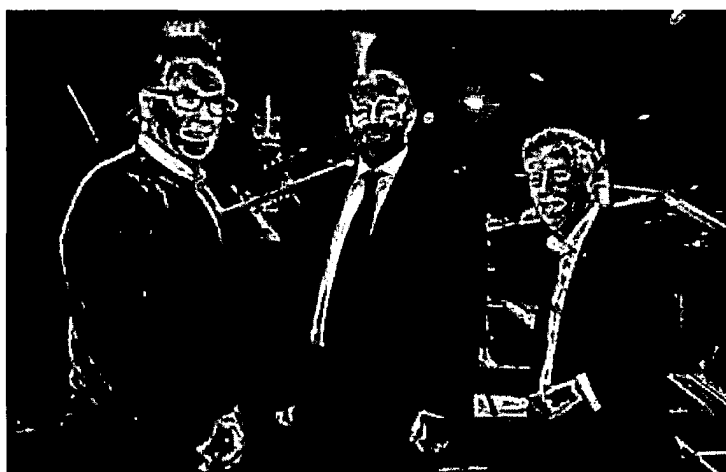
**2020: 168ml/d**  
improved from 2001: 260ml/d

**DISTRIBUTION INPUT**

**2020: 847ml/d**  
improved from 2001: 899ml/d

**WRITTEN COMPLAINTS**

**2020: 2,693**  
improved from 2001: 13,000



Nigel Annett, Peter Perry and Chris Jones

# CHIEF EXECUTIVE'S MESSAGE



## LOOKING FORWARD

However, while much has been achieved over the last 20 years, there remains a great deal to do. The COVID-19 pandemic and the impact of Storm Dennis in recent months are vivid warnings of the challenges that we know we will face over the next 20 years and beyond. That is why the Board took the significant step in 2018 of publishing a long-term strategy for the future, called *Welsh Water 2050*. In this document, we set out the eight major challenges that the business is likely to face, including the impact of climate change and the risk of pandemic. The recent series of extreme weather events, culminating in Storm Dennis in February 2020, demonstrates that our business is continually "in the front line" when it comes to *changing weather patterns*. The heroic and well planned response of colleagues right across Welsh Water to minimise the impact of these storms on our customers was hugely impressive.

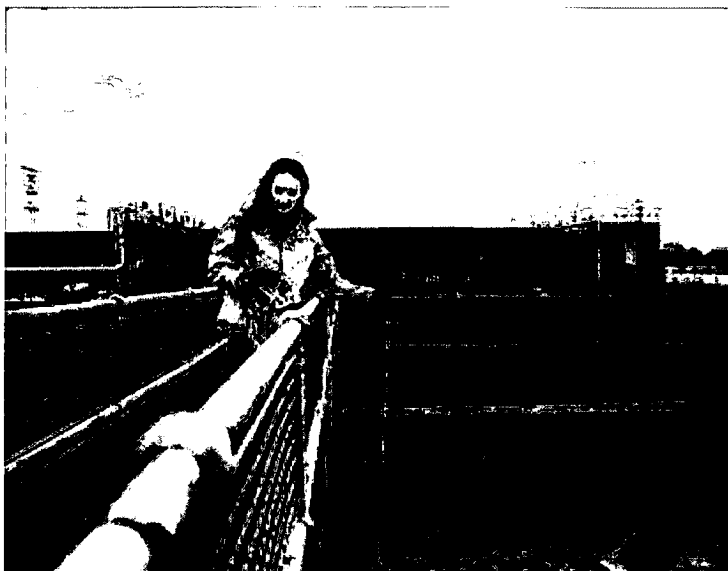
Equally, colleagues have shown great flexibility and ingenuity in maintaining our essential public health service in the face of the COVID-19 restrictions, for example by switching to delivering a full customer contact service through homeworking in the space of a week. The recent substantial investment in the Company's digital strategy has already proven its worth in these most unexpected circumstances.

However well we have responded to these immediate challenges, the fact remains that we need to be investing now in innovative ways to make our essential services more resilient for future generations of customers, against the known future challenges, such as climate change, possible further global pandemics or the risk of a severe UK recession.

During last year, we took two further important steps to ensure that we remain committed to that effort. At an Extraordinary General Meeting in December 2019,

the Members of the Company approved a new statement of corporate purpose to be included in the Articles of *Glas Cymru*, to ensure that we always remain focused on trying to improve the wellbeing of the customers and communities we serve, both now and for generations to come. Following on from that, we published in March 2020 a set of Wellbeing Commitments, which set out clear and measurable targets and objectives for the next five years, which will contribute to the seven wellbeing goals set out in the *Wellbeing of Future Generations (Wales) Act 2015*.

This long-term approach also framed our business plan for the next five-year regulatory period, which had very strong support from our customers and other stakeholders. The Final Determination for PR19, issued by Ofwat in December 2019, represents an extremely challenging set of price reductions, service targets and cost efficiency challenges for our business. While the Final Determination will enable us to deliver significant improvements in service and value for money for our customers over the next five years, it is only a first step towards addressing the challenges facing us over the longer term as set out in *Welsh Water 2050*. For this reason, we believe that the next regulatory review, PR24, needs to be based on an explicit set of long-term objectives agreed by stakeholders for the water industry in Wales, setting out timescales and objectives for carbon neutrality, enhanced infrastructure resilience, improved environmental standards and so on. This would mark a significant evolution from previous regulatory reviews and will require early engagement by all stakeholders over the next couple of years.



## CUSTOMER-LED SUCCESS

When we set up Glas Cymru 20 years ago, we did not fully foresee all the advantages from a people perspective that it would bring. Having a strong sense of social purpose has enabled us to attract highly motivated new people to join us and helps us to maintain very high levels of engagement. It has also engendered a very strong culture of innovation within the business, continually seeking better ways to deliver for our customers and the environment, and a willingness to embrace change to that end. While the tremendous commitment and ingenuity of my colleagues are most obvious at times of operational crisis, such as during Storm Dennis or in response to COVID-19, it takes every one of us to be focused on trying to provide great customer service every single day, if we are going to achieve real "customer-led success". I am very heartened by our performance in 2019-20 in terms of customer satisfaction and trust, for example, being the first water company ever

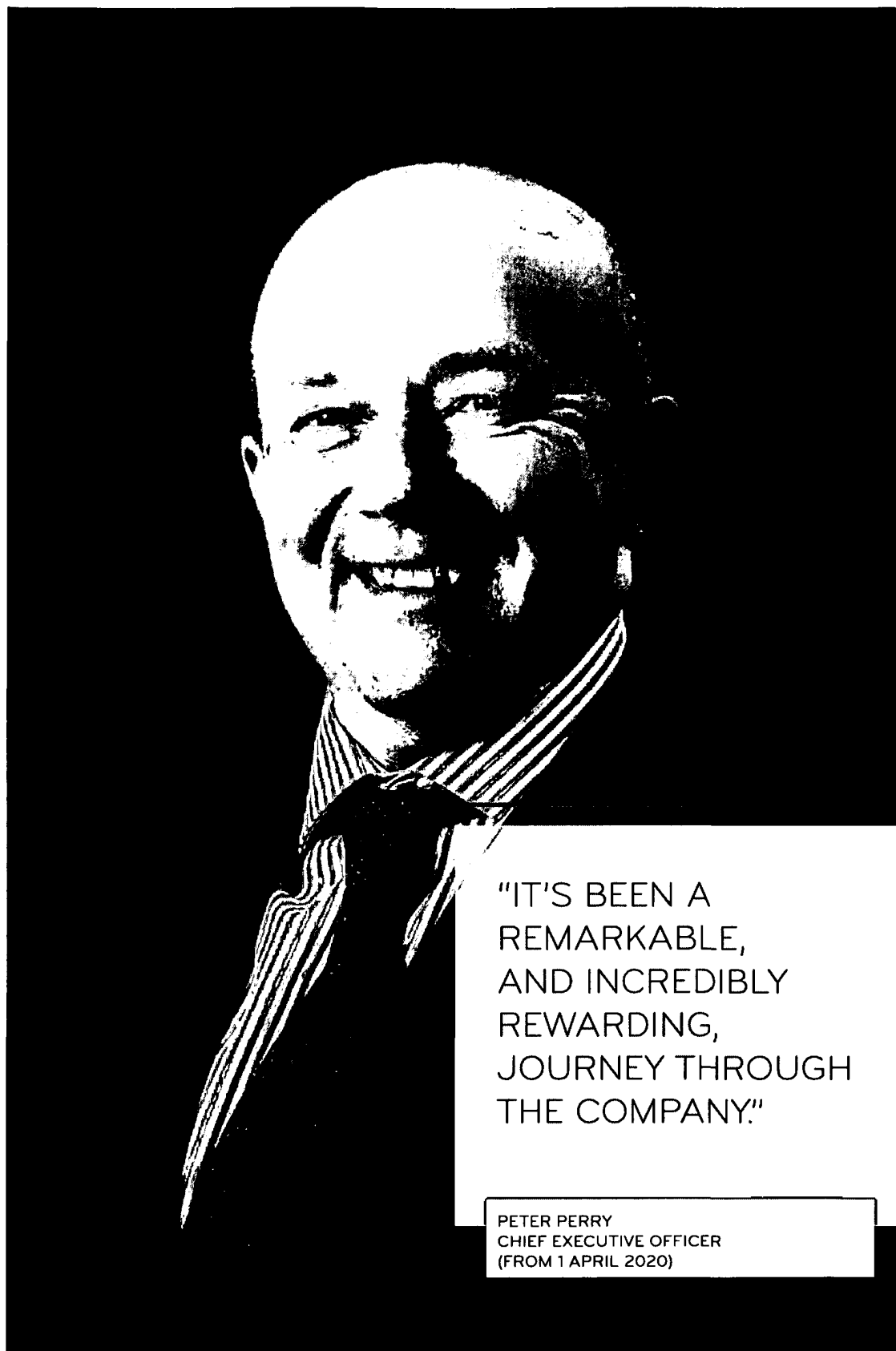
to be placed in the top 50 of the UK Customer Satisfaction Index, and in being the top performing company in the water sector on Ofwat's new C-MeX customer satisfaction measure, in its shadow year of operation. However, there is much more improvement to come, with an exciting new range of digital service offerings and other service enhancements for our household, business and developer customers.

I have been fortunate throughout my time as Chief Executive to have a great executive team and fantastic colleagues to work with – to all of whom I am hugely grateful. I have also been very fortunate to have a clear succession plan in Peter Perry, who already had some 39 years' involvement with the business when he took over as Chief Executive Officer on 1 April. I would like to thank the Board of Directors of the Company for their consistent support over 20 years and the Members of Glas Cymru, who have been unfailing in their commitment to the Company and the important governance role that they play.

Looking ahead, the business already faces some very tough regulatory challenges over the next five years. Now, above all, we will need to ensure the safe delivery of essential public health services through the period of COVID-19, while providing all help that we can to those many families and businesses who will be struggling to cope with its effects. However, I am very confident that, with our guiding sense of social purpose, a robust plan in place, tremendous people and a strong new team under Peter Perry to lead them, Welsh Water will continue to rise to the challenge and to deliver great results for our customers, communities and environment. I wish them all the very best for the future and the next stage in the Glas Cymru story.

**Chris Jones**  
Chief Executive  
(until 31 March 2020)

5 June 2020



"IT'S BEEN A  
REMARKABLE,  
AND INCREDIBLY  
REWARDING,  
JOURNEY THROUGH  
THE COMPANY."

PETER PERRY  
CHIEF EXECUTIVE OFFICER  
(FROM 1 APRIL 2020)

# CHIEF EXECUTIVE SUCCESSION

**I am truly humbled and honoured to be taking on the role of Chief Executive Officer in the business I joined as an apprentice. First, I would like to pay tribute to Chris Jones who has led the organisation through considerable change, achieved consistently high levels of performance, and played a key role in establishing our unique business model in the water sector.**

## OUR VISION AND ETHOS

In taking over the helm from Chris there are some things that are so fundamental to our business and its success that I want to make it clear they remain firmly in place. The first is our vision – “to earn the trust of our customers every day”. This clarity of purpose has served us well and has produced a culture where customer service and care for the environment are well understood priorities for all of us in the business. Second is the ethos in the organisation that is embodied in our not-for-shareholder model, which underlines the importance of always acting in the interests of our customers and operating in a socially responsible manner.

## AMP7 2020-2025

Our AMP7 business plan will deliver further improvements for customers and the environment. We have planned intensively for this over the last couple of years and our focus is now on delivery. This five-year business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.

Not only do our own teams understand fully the part they have to play in delivering our plans but these have also been built with input and commitment to improved performance from our main supply chain partners. We have contract arrangements in place that will ensure a smooth transition into the new regulatory period. Achieving tougher service and efficiency targets will also require further flexibility from our people. We have agreed a comprehensive programme of change with our recognised trade unions, covered in our progressive new five-year Working Together Agreement.

Fundamental to the next five years will be our continuing to innovate in terms of technology and new ways of working. We have partnerships with over 30 organisations and academic institutions, each aligned to projects focused on our priorities for improved performance and reduced cost. Our AMP7 plan contains a broad series of innovation opportunities ranging from our large-scale catchment management programme in the Brecon Beacons to individual digital improvements to our online service to customers. Much of our AMP7 innovation programme benefits will flow through to delivering our longer-term plan outlined in our Welsh Water 2050 vision.

## CHIEF EXECUTIVE OFFICER Q&A

**Q** YOUR APPOINTMENT COMES 40 YEARS AFTER YOU STARTED AS AN APPRENTICE. HOW DO YOU REVIEW YOUR TIME HERE?

**A** I first joined the Company in March 1980 on a training programme – I took up the post of Chief Executive Officer around 40 years later. It's been a remarkable, and incredibly rewarding, journey through the Company. I started as an apprentice in water distribution based in Llantarnam, near Cwmbran, and worked in water distribution at Croespenmaen in the Gwent Valleys, in wastewater as Catchment Manager for the Central area, across distribution in Hereford and mid Wales in the 1990s, before going back to Cardiff in a distribution role. I moved into senior operations management roles with Hyder (covering electricity and water) and the United Utilities contracting business in the 2000s, before becoming Chief Operating Officer and, latterly, Managing Director at Welsh Water.

# CHIEF EXECUTIVE SUCCESSION

## CHIEF EXECUTIVE OFFICER Q&A

**Q** WHAT DO YOU SEE AS YOUR BIG ACHIEVEMENTS AS CHIEF OPERATING OFFICER AND MANAGING DIRECTOR?

**A** Having served in various operational roles throughout my time at the Company, I have a strong interest in health and safety and I would point to the progress we have made in this area as one of the biggest changes since I joined – when the culture was far less developed than now. We are still on the Journey to Zero, but we are achieving among our best-ever results on serious injuries and illnesses at work (RIDDORs), which is testament to the culture that is now embedded throughout the Company. The safety and wellbeing of my colleagues has been paramount as Managing Director, and that will continue in my new role. I think I would also count building Welsh Water as an attractive option for new recruits making their way in the industry, like I did, and ensuring we build their careers for the long-term with us.



## PREPARING FOR THE LONG-TERM

As well as planning for the next five years, we will also review our progress towards our long-term aims set out in Welsh Water 2050. In AMP7 we will continue to work towards the 18 Strategic Goals that form the foundation of the long-term objectives we are targeting in the best interests of current and future customers. As we close out 2019–20, uppermost in our minds is the impact of climate change. Having just responded to Storms Ciara and Dennis, they serve as a timely reminder of the devastating impact these events have on our communities, and that this is one of the most significant challenges we face going forward.

The emergence of the COVID-19 crisis as we enter the new regulatory period is clearly going to present significant immediate and long-term challenges for us. Our main priority will be to do the right thing for our customers and to ensure the safety of our colleagues. The importance of safe drinking water and effective sanitation become even more critical at such a difficult time.

We also recently launched our Wellbeing Commitments ([dwrcymru.com/AR2020-wellbeing](http://dwrcymru.com/AR2020-wellbeing)); the blueprint for how we will bring benefit to the communities we work for in the long-term. Setting out our wider social and environmental ambitions defines a broader context for our primary objectives of delivering high-quality water and sewerage services. It also highlights how we will work in partnership with others to achieve this.

In order to achieve our long-term goals, we also need to continue to build an inclusive work environment that will support a truly diverse workforce who are fully committed to Earning the Trust of our Customers Every Day.

**Peter Perry**  
Chief Executive Officer  
(from 1 April 2020)

5 June 2020

## CHIEF EXECUTIVE OFFICER Q&amp;A

**Q** WHAT ARE YOUR PRIORITIES AS CHIEF EXECUTIVE OFFICER?

**A** The foundations of Welsh Water are very sound, which gives me an excellent starting point as Chief Executive Officer. We have a long-term plan in place, Welsh Water 2050, which sets out in detail the major challenges we will face over the coming three decades, and how we intend to tackle them. These range from serving a growing, and ageing, population, and the increasing opportunities presented by a digital economy, to the severe challenges posed by climate change and increasingly volatile weather. The latter was illustrated by the extreme weather in February 2020, which saw flooding to a number of areas we serve, throwing into sharp focus our need to improve the resilience of our assets, and the enormous efforts of our colleagues to keep our networks going in the face of big challenges.

Closely following this, we have been faced with the extreme challenges of COVID-19, which has made extraordinary

demands on teams across the business to maintain our essential services despite the resourcing issues and Government restrictions. We reacted by adapting quickly to new ways of working and our focus will be on ensuring we retain the best aspects of these new work practices for the future.

Our challenging PR19 Final Determination means that, once we are through the current period of unprecedented difficulty, my immediate priority will be to implement the plan for 2020–2025. This will mean being tough with efficiency – the potential for big changes is in the world of innovation and working smartly – ensuring we deliver the best services possible, efficiently and at an affordable price for the customer. To help achieve this, we've appointed new members to the Executive team who can drive this forward and devise new ways of providing high-quality services in an efficient way. My priority will be to get everyone in Welsh Water, no matter their role, working towards this goal.

**Q** WHY IS THE LONG-TERM PLAN IMPORTANT?

**A** The extreme weather we saw in February this year, and the huge challenges we faced in 2018 with Storms Emma and Callum, as well as a prolonged dry spell during the summer, show the scale of change that we face. With Storms Ciara and Dennis this year already, we saw a month's worth of rain fall in 24 hours in some areas, which is pressure well beyond the design of many of our assets, and we need to rethink our approach to tackling these challenges. These events are happening more often, and with more severity than before. Our long-term plans are crucial to ensure our services to customers are resilient to these changes and sustainable.

**Q** HOW DO YOU SEE THE APPROACH OF WELSH WATER CHANGING?

**A** Our vision – to earn the trust of our customers every day – has stood the test of time. I am very proud that the Company has the highest ratings for customer service and for trust of any water and sewerage company in England and Wales, and I don't believe our vision and ultimate purpose needs to change. That purpose – to work to benefit the communities we serve beyond simply providing services – is now part of our constitution, and part of our everyday work. Our Board and Glas Members have endorsed this position and will be working to ensure we hold true to it. Our not-for-shareholder model of customer-led success won't change. The Company is owned on behalf of our customers, and they will remain our overriding focus.



# CHIEF EXECUTIVE SUCCESSION

## CHIEF EXECUTIVE OFFICER Q&A

**Q** WHAT ARE YOUR PRIORITIES FOR THE WORKFORCE?

**A** I believe increasing the diversity of our workforce is critical. In common with other water companies, and with operationally focused companies overall, we face a long-standing challenge of attracting more women, people from black and minority ethnic backgrounds, and people living with disabilities. We are building a culture at Welsh Water which means everyone should be able to be themselves at work, and that there are no "no go" jobs for anyone. Achieving this involves breaking down cultural barriers that have been in place for decades, particularly in the operations-facing roles; building a meaningful culture where everyone is comfortable at work isn't an instant change. I am determined that to be truly sustainable, it is something we need to achieve.

We also need to build on and improve upon our record of health and safety in the workplace. My target is to get to a place where we have zero serious injuries or illnesses happening in the workplace – our Journey to Zero – and we will not be compromising on this agenda. We are currently achieving some of our best health and safety results in our history, but we are not at all complacent and this will remain a key area of focus.

**Q** HOW DO YOU INTEND TO MAKE THE COMPANY MORE INNOVATIVE?

**A** By helping the Company move into the spaces that our customers are already occupying. Customers rightly expect great service, and extremely quick responses to anything that may go wrong. To meet this expectation, we need to keep pace with the increasing rate of digital technology development and take advantage of innovation that's out there. For instance, we are starting to take advantage of technology such as drones and submersible robots, to inspect the resilience of our assets (like dams) at minimal risk to our employees. We also need to ensure that our workplaces are modern and reflect modern life – with fewer, better, smarter workplaces and genuine flexible working to reflect the lives of modern employees.

But beyond that, I think it's critical that we have a genuine two-way engagement with our customers. To have great customer service, we need to be able to work with our customers in the ways that are easiest for them, and add real value to our work. This spans from using channels from Baby Boomers to Generation Z to the way we get the widest-possible range of views about what we should be doing, and how. We've already seen this develop through our biggest-ever engagement process to build our business plan for 2020–25, involving 40,000 direct responses from customers, but we need to develop new and innovative methods to talk to our customers, to ensure that we continue to meet our customers' service expectations.

**Q** OUR PURPOSE NOW FORMALLY INCLUDES WORKING FOR THE WELLBEING OF OUR CUSTOMERS – HOW DO YOU SEE THAT DEVELOPING?

**A** Part of this will be working with all our partners to ensure, where appropriate, we are influencing an agenda to benefit our customers. Where, for example, we can help government and political stakeholders to shape policies in areas that affect our work, we should not be afraid to do so. As a Company that contributes around £1 billion annually to the wider Welsh economy, our views matter and our expertise is valued. That is true both of government, where increased devolution means that the Welsh Government and Senedd determines policies that affect us, and also of our wider stakeholders such as regulators and consumer representatives. I will prioritise building on our strong and effective relationships to benefit our customers in any way I can.

Our published Wellbeing Commitments ([dwrcymru.com/AR2020-wellbeing](http://dwrcymru.com/AR2020-wellbeing)) I launched at the Senedd in March 2020, set out ambitious, measurable targets for us to enhance the wellbeing of our customers in the next five-year period. Priorities include:

- opening up our visitor centres to encourage more visits by our customers;
- promoting the Welsh language services we already have in place for customers; and
- making a meaningful difference to the development of water and wastewater services in developing countries through our partnership with WaterAid.

Our Wellbeing Commitments are a blueprint for how we intend to benefit the communities we serve over the long-term.



# OUR STAKEHOLDERS

Engagement with our stakeholders plays a vital role throughout our business. Our key stakeholder groups, their interests and how we engage with them are set out in the tables below.

By understanding our stakeholders, we can factor into Boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns in accordance with Section 172 of the Companies Act 2006 (see page 24).

| STAKEHOLDER                                                                                                                                                                                                                                                                                                                | THEIR INTERESTS                                                                                                                                                                                                                                                                                                                                                                  | HOW WE ENGAGE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | HOW THE BOARD ENGAGES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p><b>OUR CUSTOMERS</b></p> <p>As a customer-led business we focus on delivering the best quality services possible, at an affordable price, and supporting those who need it most.</p> <p>&gt; <a href="#">READ MORE ON PAGE 29</a></p> | <ul style="list-style-type: none"> <li>• Customer bills</li> <li>• Improved services</li> <li>• Economic prosperity</li> <li>• Data protection</li> <li>• Trust</li> <li>• Priority Services Register</li> <li>• Social tariffs</li> <li>• Creating new homes and businesses</li> <li>• How we contribute to their community</li> <li>• Sustainability and innovation</li> </ul> | <ul style="list-style-type: none"> <li>• Direct engagement through telephone, web and social media</li> <li>• Retail customer website and online services</li> <li>• Seeking feedback and views from our customers across all areas we serve</li> <li>• Attendance at major business events with customers from across our supply area</li> <li>• Key account management of our business and developer customers</li> <li>• Focus groups and customer interviews to gain insight into what customers want and to test new services</li> <li>• Annual Trust survey to check we meet customer expectations</li> <li>• Continuous improvement of processes and awareness of key principles that govern personal data</li> <li>• Communicating with vulnerable groups through third sector partnerships</li> <li>• Enhancing our Priority Services Register through ground-breaking data sharing initiatives with other utilities companies and public bodies</li> <li>• Provision of expert knowledge and added value services to business and developer customers</li> <li>• Developer services forums held twice a year</li> </ul> | <ul style="list-style-type: none"> <li>• Annual review of the delivery plans by customer type</li> <li>• Interaction with the Customer Challenge Group (CCG)</li> <li>• Specific reports on events that impact our customers, for example, extreme weather events</li> <li>• Regular updates on customer engagement and on our customer satisfaction performance</li> <li>• Opportunities for the Board to hear feedback from focus groups</li> <li>• Reports on customer activities including vulnerable customer strategy and HelpU tariffs</li> <li>• Reviewing progress of our expansion of our digital services to improve customer experience</li> <li>• Reports on data protection compliance and cyber risk</li> </ul> |

| STAKEHOLDER                                                                                                                                                                                                                                                                                                                                                                                                             | THEIR INTERESTS                                                                                                                                                                                                                                                                                                                                                 | HOW WE ENGAGE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | HOW THE BOARD ENGAGES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p><b>OUR PEOPLE</b></p> <p>We have a dedicated workforce that we recognise as a key asset of our business. Therefore, it is imperative that we continue to create the right environment, and learning and development opportunities, for our colleagues to realise their full potential.</p> <p>&gt; READ MORE ON PAGE 24 AND 86</p> | <ul style="list-style-type: none"> <li>• Health, safety and wellbeing</li> <li>• Training, development and career paths</li> <li>• Fair pay and benefits</li> <li>• Human rights and the prevention of modern slavery</li> <li>• Diversity and inclusion in recruitment and retention policies</li> <li>• Inclusive and supportive work environments</li> </ul> | <ul style="list-style-type: none"> <li>• Safety and wellbeing, including mental health, initiatives; wellbeing champions across the business</li> <li>• Event, weather and workplace specific health and safety bulletins</li> <li>• Safety Climate Survey</li> <li>• Employee roadshows and leadership conferences, frequent site visits</li> <li>• Daily and weekly updates via email and intranet</li> <li>• Monthly team brief call led by the Chief Executive Officer and open to all colleagues</li> <li>• Employee engagement survey and engagement champions</li> <li>• Working Together Agreement with trade unions</li> <li>• Code of Conduct encouraging colleagues to "speak up" and "do the right thing"</li> <li>• Annual performance and career development reviews, regular 121s and team meetings</li> <li>• Career development support for apprentices, graduates, interns</li> <li>• Dedicated mentoring</li> <li>• Inclusivity champions across the business</li> <li>• Investor in People Gold standard processes</li> <li>• Disability Confident accredited practices</li> </ul> | <ul style="list-style-type: none"> <li>• Chairman/Non-Executive Director site visits and frequent informal dinners/lunches with local teams</li> <li>• Employee engagement champion sessions</li> <li>• Participating in some monthly team brief calls with Chief Executive Officer</li> <li>• Reports from Executive Directors on attendance at trade union meetings</li> <li>• Reviewing reports on a range of people matters, including employee engagement, health and safety, diversity and inclusivity and gender pay gap</li> <li>• Receiving updates on whistleblowing investigations</li> <li>• Policy reviews and approvals</li> <li>• Talent development and succession planning reviews, including mentoring</li> <li>• Board agendas facilitating opportunities for colleagues to interact with the Board</li> <li>• Review of Company-wide remuneration policies and practices</li> </ul> |
|  <p><b>OUR COMMUNITIES</b></p> <p>We are committed to supporting the communities in which we operate, including residents, businesses and the wider public.</p> <p>&gt; READ MORE ON PAGE 83</p>                                                                                                                                     | <ul style="list-style-type: none"> <li>• Continuous good quality water supply without restriction</li> <li>• Minimised sewer flooding and pollution</li> <li>• Reduced leakage</li> <li>• Support for economic development and providing services to business and developer customers at an affordable price</li> </ul>                                         | <ul style="list-style-type: none"> <li>• Direct presence and support via social media in communities for events such as storms</li> <li>• Financial support for local projects via an established Community Fund</li> <li>• Resilient Communities programme to help our most vulnerable customers</li> <li>• Water Aid and Prince's Trust support</li> <li>• Education services at our four Discovery Centres and via outreach programme in schools</li> <li>• Our seven Wellbeing Goals aligned with the Wellbeing of Future Generations (Wales) Act 2015</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <ul style="list-style-type: none"> <li>• Discussion and agreement of strategies to support our community initiatives and to deliver our Wellbeing Goals</li> <li>• Board visits to community projects such as the Rhondda Fach Water Resilient Community Programme</li> <li>• Review of response to critical events such as storms and flooding</li> <li>• Hearing from Glas Members on local impacts</li> <li>• Ensuring impact on local communities is included in decision-making</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                         |

# OUR STAKEHOLDERS

| STAKEHOLDER                                                                                                                                                                                                                                                                                                                                                | THEIR INTERESTS                                                                                                                                                                                                                                                                                                                                                                                                 | HOW WE ENGAGE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | HOW THE BOARD ENGAGES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p><b>OUR ENVIRONMENT</b></p> <p>Our environment stakeholders act as critical friends, partnering with us in the delivery of our environment programme. They also advise and support the Company, helping us inform policy changes.</p> <p>&gt; READ MORE ON PAGE 92</p> | <ul style="list-style-type: none"> <li>• Climate change and carbon emissions</li> <li>• Renewable energy technology/ application</li> <li>• Circular economy</li> <li>• Biodiversity and nature</li> <li>• Innovation, science and research</li> <li>• Fishing and ecological resilience</li> <li>• Sustainable food production</li> <li>• Sustainable use of water</li> <li>• Drainage and flooding</li> </ul> | <ul style="list-style-type: none"> <li>• Working closely with our Independent Environmental Advisory Panel (IEAP)</li> <li>• Improving the sustainability of our operations</li> <li>• Reducing our carbon footprint</li> <li>• Supporting the recycling of our bioreources to land as a fertiliser</li> <li>• Supporting our catchment management and sustainable use of natural resources work</li> <li>• Partnering on initiatives to clean up our rivers and bathing/ shellfish waters</li> <li>• Supporting our Welsh Water 2050 strategic responses</li> <li>• Driving the national research agenda through our strategic relationships with various environmental research bodies e.g. UKWIR and UKRI</li> <li>• Supporting our innovation agenda</li> </ul> | <ul style="list-style-type: none"> <li>• Creation of the Welsh Water 2050 vision and its environmental strategic promises</li> <li>• Review of relevant strategies e.g. catchment management</li> <li>• Investment approvals to safeguard the environment for future generations</li> <li>• Regular updates on our Biodiversity Plan and other environmental initiatives</li> <li>• Innovation strategy and delivery updates</li> <li>• Environmental and regulatory policy change</li> <li>• Regular reports from the IEAP to the Quality and Environment Committee</li> <li>• Engagement of the Quality and Environment Committee and individual Directors with NRW</li> <li>• Board visits to sustainable energy sites</li> </ul> |
|  <p><b>OUR SUPPLIERS</b></p> <p>Over 2,000 supply partners work with us to ensure we can deliver our essential services to customers.</p> <p>&gt; READ MORE ON PAGE 24</p>                                                                                              | <ul style="list-style-type: none"> <li>• Fair payment terms and conditions</li> <li>• Long-term partnerships</li> <li>• Opportunities for collaborative development of innovative solutions</li> </ul>                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>• Direct engagement</li> <li>• Continuation of capital alliance and creation of network alliances</li> <li>• Collaborative working groups</li> <li>• Supplier payment policy and prompt payment code</li> <li>• Anti-Bribery and Corruption Policy</li> <li>• Human Rights and Modern Slavery Act 2015 compliance programme</li> <li>• Contract and supplier management framework</li> </ul>                                                                                                                                                                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>• Regular reporting from management on supplier payment performance</li> <li>• Reports on capital projects and relations with capital and network alliance partners</li> <li>• Meeting with leaders of the capital alliance partners</li> <li>• Approval of Anti-Slavery Statement and Anti-Bribery and Corruption Policy</li> <li>• Review of outcomes of whistleblowing investigations and focus on continuous improvement</li> </ul>                                                                                                                                                                                                                                                       |

## SERVING OUR CUSTOMERS AND COMMUNITIES

| STAKEHOLDER                                                                                                                                                                                                                                                                                                                                                                                                        | THEIR INTERESTS                                                                                                                                                                                                                                                                                                                 | HOW WE ENGAGE                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | HOW THE BOARD ENGAGES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p><b>OUR INVESTORS</b></p> <p>As providers of long-term financing, our financial institutional stakeholders play a key role in supporting our not-for-shareholder model. The benefits of low-cost finance are passed on to our customers in the form of lower bills and improved services.</p> <p>&gt; READ MORE ON PAGE 25</p> | <ul style="list-style-type: none"> <li>• Strong financial discipline</li> <li>• Openness and transparency</li> <li>• Strong "Investment Grade" credit ratings</li> <li>• Sustainable long-term business strategy</li> </ul>                                                                                                     | <ul style="list-style-type: none"> <li>• Direct engagement through regular meetings, calls and presentations to investors and credit rating agencies</li> <li>• Quarterly investor reports</li> <li>• Annual Report and half-yearly results</li> <li>• Corporate website</li> <li>• Other Regulatory News Service announcements/press releases</li> </ul>                                                                                                                         | <ul style="list-style-type: none"> <li>• Investor programme led by the Chief Financial Officer and treasury function</li> <li>• Annual investor updates also attended by Chief Executive Officer</li> <li>• Approval of quarterly investor reports</li> <li>• Regular updates from Chief Financial Officer and Group Treasurer on treasury policy, funding strategies, credit ratings, interest rate management and gearing</li> </ul>                                                                                                         |
|  <p><b>OUR MEMBERS</b></p> <p>Our Glas Members have oversight over the governance of our Group.</p> <p>&gt; READ MORE ON PAGE 25</p>                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>• Openness and transparency</li> <li>• Regular communications</li> <li>• Opportunities to develop understanding of our business and challenges</li> <li>• Clear purpose, vision and strategy focused on the wellbeing of our customers and the communities we serve</li> </ul>           | <ul style="list-style-type: none"> <li>• Annual General Meeting and further half-year meeting</li> <li>• At least two further regional meetings, including site visits and workshops on particular issues, every year</li> <li>• Regular email circulars providing updates on what is happening in the business including formal announcements</li> <li>• Fortnightly media round up emails</li> <li>• New Member induction programme</li> <li>• LinkedIn Members page</li> </ul> | <ul style="list-style-type: none"> <li>• Attendance at Glas Members' meetings</li> <li>• Hearing from Members on particular issues affecting their local communities</li> <li>• Ensuring the views of Members are brought into the Boardroom and considered in our decision-making</li> </ul>                                                                                                                                                                                                                                                  |
|  <p><b>OUR REGULATORS AND POLICY MAKERS</b></p> <p>We maintain an open dialogue to help shape sound policy, support innovation and develop balanced investment programmes that address the needs of all our stakeholders.</p> <p>&gt; READ MORE ON PAGE 33</p>                                                                  | <ul style="list-style-type: none"> <li>• Open communication</li> <li>• Effective governance</li> <li>• Advocate the customer agenda</li> <li>• Building resilience against long and short-term threats to our services</li> <li>• Our energy use and carbon footprint</li> <li>• Open and constructive collaboration</li> </ul> | <ul style="list-style-type: none"> <li>• Regular and open engagement with regulators</li> <li>• Continuous monitoring of internal control processes to ensure compliance with regulatory requirements</li> <li>• Annual and other periodic reporting</li> <li>• Responding to reports and consultations from regulators</li> <li>• Engagement with local authorities</li> <li>• Engagement with DEFRA and Welsh Government on key policy issues</li> </ul>                        | <ul style="list-style-type: none"> <li>• Chairman and Non-Executive Directors' attendance at meetings with our regulators and Government representatives, and at Ofwat's annual conference for Non-Executive Directors</li> <li>• Receiving presentations from Drinking Water Inspectorate and Natural Resources Wales to the Quality and Environment Committee of the Board</li> <li>• Regular reporting to the Board on discussions with policy makers and key opinion formers including Ofwat, DEFRA, Welsh Government, Water UK</li> </ul> |

## SECTION 172(1) STATEMENT

This section sets out the Group's Section 172 Statement and should be read in conjunction with the Strategic Report on pages 5 to 95. Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision-making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, including the impact of its activities on the community, the environment and the Company's reputation, when making decisions

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

The Board is mindful of the purpose and vision of the Company and is focused on promoting the long-term success of the Company, in particular given its role as the custodians of assets over the long-term to enable the delivery of essential services to customers. While the requirement to give due consideration to the Company's stakeholders is not new, this statement has been included in the Annual Report and Accounts in order to provide more detail on how the Board engages with our stakeholders.

As part of its involvement in the PR19 price review process, the Board focused on understanding the views of the Company's key stakeholders over the five-year period 2020–25 and the longer term. This price review process allowed the Board to reflect on how the Company engages with its stakeholders and opportunities for enhancement in the future.

### ENGAGEMENT WITH STAKEHOLDERS

On pages 20 to 23 of our Strategic Report, we set out details of our principal stakeholders, how and why we engage and the outcomes of those engagement processes. The relevance of each stakeholder group may increase or decrease depending on the matter or issue in question, so the Board seeks to consider the needs and priorities of each stakeholder group during its discussions and as part of its decision-making.

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

In the case of customers, there are opportunities for Board members to observe focus groups, attend meetings of the Customer Challenge Group (an independent group of customer representative organisations), and to review the results of customer engagement exercises. Members of the Board also take the opportunity to listen to customer calls at our contact and operations call centre in Cardiff. The potential impact of the Board's decisions on our communities and customers is a key factor in decision-making, and issues are highlighted in Board papers seeking approval.

### ENGAGEMENT WITH THE WORKFORCE

The Board continues to enhance its methods of engagement with the wider workforce. With effect from 1 October 2019, and following an assessment by the Board of the three formal methods suggested within the 2018 UK Corporate Governance Code (the Code) for workforce engagement, it was concluded that the most effective method for engagement in the Company's particular circumstances would be the involvement of each Non-Executive Director in informal meetings with managers and engagement champions across the business, with the opportunity to feed back action points and observations.

### ENGAGEMENT WITH SUPPLIERS

We aim to work responsibly with our suppliers. Our capital alliance partnership with our key capital development partners benefit from a capital alliance board, which includes our Managing Directors of Water and Wastewater as members. Last year we implemented a contract and supplier management process, which has helped to formalise our relationships with other key suppliers.

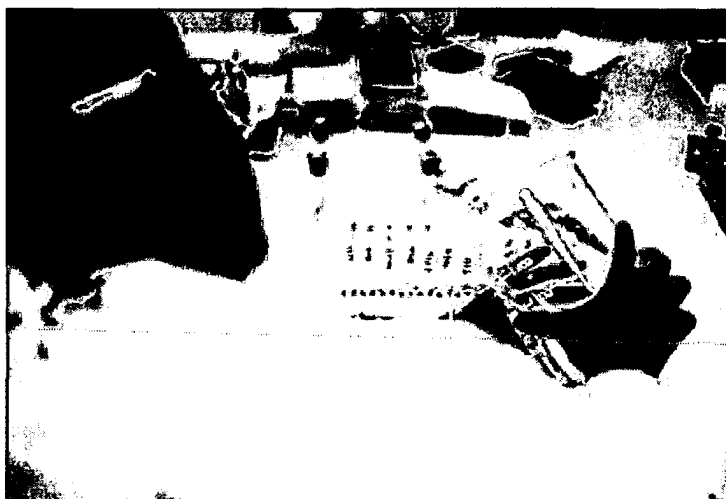
During the year, the Board reviewed our arrangements and approved the Company's Anti-Slavery Statement that sets out the steps taken to prevent modern slavery and unfair working practices in our business and supply chains. For more information, refer to page 90.

## ENGAGEMENT WITH GLAS MEMBERS

Glas Members fulfil an essential corporate governance role. Members receive no financial recompense for their involvement in the Company and are drawn from a wide-range of background and experiences, from across our supply area in Wales and England. They attend two formal meetings a year and have opportunities to meet members of the Board both formally and informally, and to raise any issues or concerns, either directly or via the Company Secretary. Members vote on formal resolutions at the Company's Annual General Meeting, including approval of the Executive Remuneration Policy and other Resolutions in the same way as shareholders' approval is sought under corporate governance requirements, and are also consulted on strategic issues, with their opinions being valued by the Board.

## ENGAGEMENT WITH INVESTORS

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



## THE ROLE OF THE EXECUTIVE TEAM

In preparation for taking on the role of Chief Executive Officer from 1 April 2020, Peter Perry undertook an internal reorganisation of senior management, and established a larger Dŵr Cymru executive team with effect from 1 January 2020, to support him in his duties and decision-making. This team, designated as senior management for the purpose of the Code but not for the purposes of section 414C(8) of the Companies Act 2006, comprises the senior functional management roles and, together, is comprised of those with responsibility for interacting with the Company's principal stakeholders. It is envisaged that this change in management structure will further enhance consideration of stakeholder interests in decision-making at both Board and at management level.

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

Examples of where the Board has balanced the interests of different stakeholders in its decision-making include balancing long-term investment with costs, and in relation to bill levels and financial assistance for customers who struggle to pay.

# BUSINESS MODEL

Glas Cymru came into being in 2000 as a company "limited by guarantee".

## WHO WE ARE

As a company "limited by guarantee", Glas Cymru was formed solely to acquire and run Dŵr Cymru Welsh Water on a not-for-shareholder basis.

Being not-for-shareholder means that all gains go to customers. This has always been at the heart of what we do since Glas Cymru was formed in 2000.

This means we work differently from other water and wastewater companies. We don't pay dividends, as we don't have shareholders. Any money we make goes back into the business to benefit our customers. It also means we can work to benefit our customers over the long-term – we can plan our investments to ensure we aim to protect future generations from potential challenges like climate change, and take full advantage of potential opportunities, like using emerging new technology and data analysis.

This is what being a not-for-shareholder company means – at the centre of everything we do are our customers, and building and maintaining their trust in us is crucial to delivering the services that matter.



## HOW WE DO IT

### OUR PURPOSE:

**Welsh Water's purpose is to provide high-quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.**

The Glas Group exists to support the regulated operating company, Dŵr Cymru Cyfyngedig (referred to throughout this report as Welsh Water). In order to deliver our purpose, we:

- take water, treat it and distribute high-quality drinking water to our customers across most of Wales and Herefordshire
- collect, treat, and safely return wastewater to our rivers and seas – protecting public health and the environment across our supply area in Wales and parts of Deeside and Cheshire
- reuse our waste and convert it into energy that powers some of our sites

- provide excellent levels of service to all of our customers, including those who are vulnerable or struggling to pay their water bills, as well as to developers and business customers

In doing all of the above, we aim continuously to improve our processes and to use innovation across our business to reduce cost and improve efficiency for our customers.

We are custodians, both of the physical assets that enable us to provide services and of the relationship of trust that has been built with our customers since Welsh Water was acquired by the Glas Group in 2001. This means that our business model is focused on long-term sustainability. Maintaining a relationship of trust with our customers, and focusing on good operational performance and customer service, helps our reputation so that we can achieve a strong credit rating. This enables us to access capital funding at a lower cost than other utilities which, in turn, helps us keep bill increases at a manageable level for our customers.



Our long-term planning for the business is illustrated by Welsh Water 2050, our response to the identified longer-term challenges facing the business. Welsh Water 2050 sets out our long-term vision that will help us address the many challenges that lie ahead – from climate and demographic change to changing land use, the pace of technological change and also to increasing customer expectations.

> READ WELSH WATER 2050  
ONLINE AT: [DWRCYMRU.COM/  
AR2020-WW2050](https://www.dwrcymru.com/AR2020-WW2050)

We are also focused on developing the resilience and skills of our people to meet the future challenges we have identified in Welsh Water 2050. We aim to inspire and support the development of every colleague across the business to enable them to realise their full potential. The strong responses to our Employee Engagement Survey show how much colleagues value their involvement with the Company. 84% of colleagues responded, and of those, 85% confirmed that they believe in Welsh Water and what it stands for.

Our business model is unique in the utilities sector. Our focus on customer benefits has enabled us to:

- keep average household bill price rises below the RPI rate of inflation for 10 consecutive years
- maintain the best credit rating in the sector for England and Wales, so we can borrow to invest in our services at the lowest price for customers
- support more than 130,000 low-income customers to pay their water bills
- generate added value for our household and business customers
- invest in our clean and wastewater assets to ensure we can continue to provide high-quality services to our current and future customers.

# BUSINESS MODEL

## RETURN OF VALUE ANNOUNCEMENT – 2019

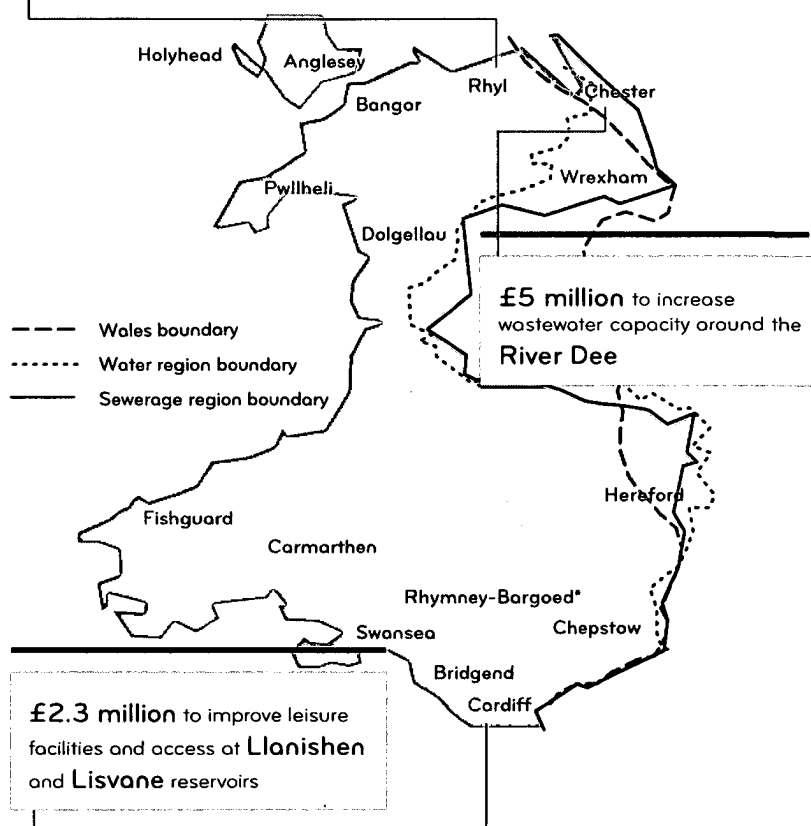
In June 2019 we announced an extra £47 million of return of value to customers (2018: £40 million). We confirmed the investment as part of the "Return of Value", which sees investment going directly back into water and wastewater services for the benefit of our customers.

The £47 million is being used to fund extra investment in projects to benefit customers across our supply area, including:

- £8 million towards helping our lowest-earning customers pay their bills
- £10 million investment towards improving the reliability of our water network in areas that see repeated problems – with 265 kilometres of water mains replaced already, and 456 kilometres cleansed across our operating area as part of a £100 million investment programme
- £6 million investment to help prevent sewer blockages and flooding of homes and businesses
- £5 million to increase wastewater capacity around the River Dee near Chester to reduce the risk of sewage leaks
- £5 million to improve business efficiency and reduce costs to keep down customer bills, including deploying new digital technology and reducing vehicle fleet costs
- £4 million investment in water treatment works to reduce the risk of interruptions to water supply
- £2.5 million to replace customers' lead supply pipes
- £2.3 million to improve recreation facilities and public access at Llanishen and Lisvane reservoirs in Cardiff, as part of a cross-Wales programme of visitor centre investments.

## PLANNED INVESTMENTS ACROSS OUR SUPPLY AREA

**£10 million** towards improving the reliability of our water network in areas that see repeated problems, including **Rhymney-Bargoed\*** and **Rhyl**



SINCE 2001 WELSH WATER HAS  
REINVESTED A TOTAL OF OVER

**£440 million**

FOR THE BENEFIT OF OUR CUSTOMERS.

## WHO DO WE SERVE?

### HOUSEHOLD CUSTOMERS

We are the sixth largest of the 11 regulated water and wastewater companies in England and Wales, in terms of the population we serve. We provide essential services to more than 3 million people across most of Wales, Herefordshire, and parts of Deeside and Cheshire. We offer customers in vulnerable circumstances the ability to register to receive priority service from us in the event of an incident, and we provide financial assistance to over 130,000 customers who struggle to pay their water bills.

### COMMERCIAL BUSINESS CUSTOMERS

We have a dedicated business customer team, for both our business customers who are "in the market" for retail services for water (in Wales, only customers who use more than 50MI per year at a single site can choose their water retailer – around 110 customers), and for other business customers (circa 110,000) for whom we remain the monopoly provider. We provide a tailored service to all of our business customers to meet their expectations and help them manage their water and wastewater cycles, and we also offer a range of additional services that complement our core service provision, such as leak detection and network optimisation where the customer needs it.

For 2019–20, we were ranked first among all providers of customer service in MOSL's Market Performance Standards for business customers in the competitive retail market, with a score of 97.8%. We also achieved a 90% customer satisfaction rating for those business customers who have to remain with us, and the same level of satisfaction was reported by the



Consumer Council for Water in their report 'Testing the Waters', where we were ranked in first place compared to other retailers in England on measures including satisfaction and value for money.

### DEVELOPER CUSTOMERS

Research has shown Welsh Water – and our work with our supply chain – is worth up to £1 billion annually to the Welsh economy.

We have an important role to play in supporting economic development across our supply area by providing new water and sewerage infrastructure and expert advice. We have a dedicated team for housing and property developer customers, whether individual self-builds or home improvements such as extensions or conservatories, or major new housing and commercial developments. Our team has achieved the highest level of performance compared to the rest of the water sector in Wales and England for both water and sewerage measures since the Water UK Developer Services Levels of Service were introduced in April 2015. Our most recent developer customer survey, which was conducted independently in the summer 2019, resulted in high levels of customer

satisfaction at 85%, a rating of the helpfulness of our colleagues of 91% and also trust levels at 82%. We were also the first company to voluntarily implement a "Developer Customer Services Commitment", which has now been extended to include our NaV (New Entrant and Variations to licences) customers, and also a "Surface Water Incentive Scheme" for developer customers, which has been extended to include our business customers who are not in the retail market. <https://www.dwrcymru.com/en/Developer-Services.aspx>

Over the last eight years a number of significant legislative changes have been made that relate to our developer customers – the same changes have not been implemented for those customers who are served by English water companies. These changes include the mandatory sewer adoption requirements, the requirement to install fire sprinklers in all new homes and the introduction of the requirement to incorporate sustainable drainage arrangements on nearly all new developments in Wales. We continue to work and support our developer customers in these areas to ensure the new arrangements are implemented and incorporated in an orderly way.

# BUSINESS MODEL AT A GLANCE

## WHO WE ARE

Being not-for-shareholder means that all gains are used to benefit customers. This has always been at the heart of our business since Glas Cymru acquired the business of Welsh Water in 2001. Our customers are at the centre of everything we do, and building and maintaining their trust in us is crucial to delivering the services that matter.

## OUR RESOURCES

### PHYSICAL ASSETS

We are custodians of long-term assets across our supply area that we use every day to provide essential services to 3.1 million people. Our assets, including above ground clean and wastewater treatment works, and below ground mains and pipes, would cost over £30 billion to rebuild if we had to do this from scratch. We invested £1.9 billion over the period 2015-2020 and we are investing a further £1.8 billion over the next five-year period to ensure we maintain their resilience, and meet our customers' evolving expectations and the challenges of climate change and evolving regulation.

### NATURAL RESOURCES

We are fortunate to benefit from 36 impounding reservoirs across our supply area, and we also supply water to Severn Trent and United Utilities to support their services to their customers. Our supply area benefits from many beautiful rivers and one third of the UK's bathing water beaches.

### OUR PEOPLE

Our people are our greatest asset, focused on earning the trust of our customers every day. Key priorities include developing our people and creating an inclusive and welcoming environment with a diverse workforce that reflects the communities we serve.

### FINANCIAL CAPITAL

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

## OUR CULTURE

### OUR PURPOSE

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

### OUR VISION

To earn the trust of our customers every day.

### OUR VALUES

- PROUD to put our customers first
- SAFE at all times
- Achieving EXCELLENCE in everything we do
- HONEST with everyone
- OPEN to new ideas
- TRUSTED to do the right thing

> READ MORE ABOUT OUR CULTURE ON PAGE 26

## OUR EXTERNAL ENVIRONMENT

There are a number of factors in our external environment that influence our operations:

- Regulation in three areas: financial and economic (Ofwat), environmental (NRW and the EA), and water quality (DWI)
- UK political landscape
- Climate change

> READ MORE ABOUT OUR EXTERNAL ENVIRONMENT ON PAGE 33

## OUR ACTIVITIES

### COLLECTION OF WATER



### TREATMENT OF WATER



### DISTRIBUTION OF WATER TO CUSTOMERS



### COLLECT WASTEWATER FROM CUSTOMERS



### TREATMENT OF WATER



### RETURN OF WATER TO RIVERS AND SEAS

## OUR PLANNING HORIZONS

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

### CUSTOMERS



### VISION



### WELSH WATER 2050



### REGULATORY PRICE REVIEWS



### AMP7



### AMP8



### AMP9

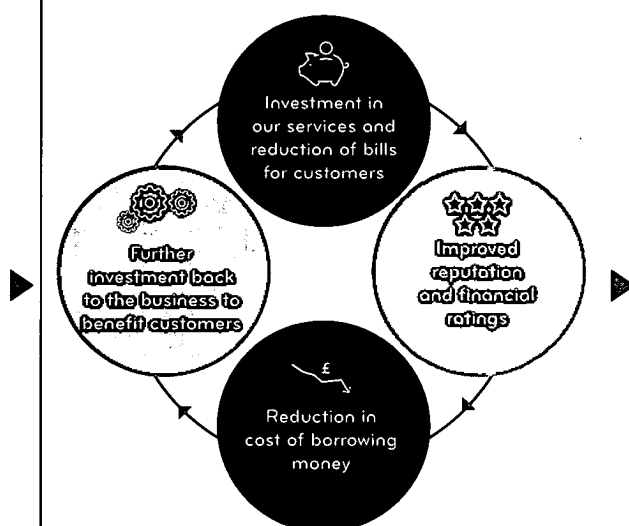
### PR19 AND WELSH WATER 2050

> READ MORE ABOUT OUR PLANNING HORIZONS ON PAGE 36

## SERVING OUR CUSTOMERS AND COMMUNITIES

## INVESTMENT

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



## The benefits of our model:

- Holding average household bill price rises below the Retail Price Index (RPI) rate of inflation for 10 consecutive years
- Maintaining the best credit rating of any water company in the UK, meaning we can borrow to invest in our services at the lowest price for customers
- Supporting more than 130,000 low-income customers to pay their water bills
- Generating added value for our household and business customers
- Investing in our clean and wastewater assets to ensure we can continue to provide high-quality services to our current and future customers

> READ MORE ABOUT OUR INVESTMENTS ON PAGE 49

## VALUE ADDED

## CUSTOMERS

## Household customers

- We provide excellent and responsive customer service, including to vulnerable customers and those who struggle to pay their water bills

## Commercial business customers

- We offer a differentiated service depending on the needs and expectations of our business customers

## DEVELOPERS

- We have maintained upper quartile service levels assessed against the industry standards for the last 5 years, and helped our developer customers to understand their obligations under Wales-specific legislation

## EMPLOYEES

- We continue to build an inclusive work environment and support all forms of diversity across our workforce

## COMMUNITIES

- We are supporting our customers at a community level – working with customers as partners to improve the world around us. We do this through a range of projects, including our Water Resilient Communities project and our Community Fund

## SUPPLIERS

- As one of Wales' largest companies, we have a significant impact on businesses across Wales who are our suppliers – with more than 2,000 suppliers and contractors who support us in the services we provide. We have been recognised as paying suppliers quicker than any other UK water company under the Prompt Payment Code

## ENVIRONMENT

- We are contributing to enhancing biodiversity, conservation efforts, improving bathing and raw water quality in the environment, and in reducing our carbon footprint. We work with our environmental regulators, Natural Resources Wales and the Environment Agency, as well as other environmental organisations and charities to ensure we are meeting our aims to support projects which improve the world around us. This includes our Independent Environmental Advisory Panel, made up of representatives from a number of front-line environmental organisations in Wales and England

> READ MORE ABOUT OUR STAKEHOLDERS ON PAGE 20

# MARKET AND REGULATION

## THE WATER SECTOR

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

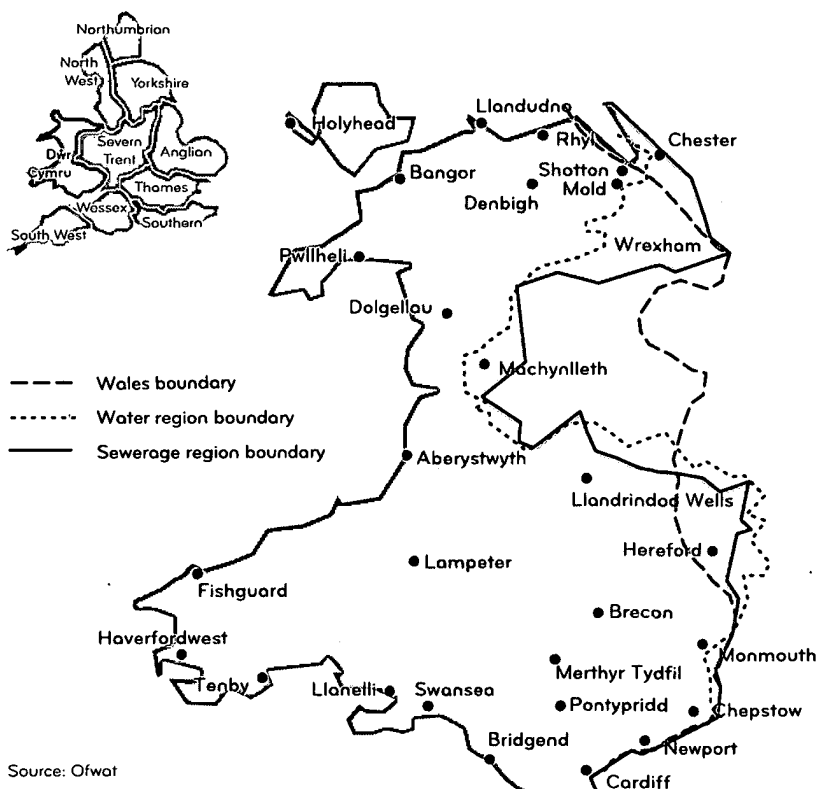
Since the water and sewerage industry was privatised in 1989, a regulatory framework has been in place to ensure that consumers receive high standards of service at a fair price. This framework has allowed the companies to invest more than £130 billion in maintaining and improving assets and services.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

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

## DŴR CYMRU CYFYNGEDIG (WELSH WATER)

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

### MAP OF WELSH WATER'S SUPPLY AREA



Source: Ofwat

We are the sixth largest of 11 regulated water and wastewater companies, and provide services to more than three million people across our service area.

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

## THE FUTURE OF THE WATER SECTOR

The water industry is facing a number of major challenges. These range from climate and demographic change to the pace of technological change and increasing customer expectations. As a responsible water company, we know the decisions we make today have an impact on our customers now and for generations to come. So, we plan for the long-term – Welsh Water 2050 sets out how we will tackle each of the challenges we face over the next three decades, and how we will prioritise each.

We plan our investments over five-year periods. Our long-term plan sits alongside our five-year investment plan for 2020–25, which sets out what we intend to do as first steps towards realising this vision. To gauge what our customers think of these plans, over the last three years we've been working with and listening to our customers about our plans for the future – 40,000 customers have had a direct say on how we run their water and wastewater services. For more details on our 2020–25 Business Plan and Welsh Water 2050, see pages 34 to 39.

## REGULATORY FRAMEWORK

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

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

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

We continue to maintain and develop our relationships with these regulators and a range

of other regulators and public bodies to help shape balanced investment programmes, which address the needs of all of our customers and stakeholders while also contributing to our ability to create value.

Copies of the reports published by these regulators on Welsh Water's performance can be found on our website [dwrcymru.com](http://dwrcymru.com) or on the website of the relevant regulator.

## REGULATORY CYCLE

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

2019–20 has been a key year in our regulatory cycle – we received a Draft Determination from Ofwat in July 2019 as part of the PR19 price review process, following our AMP7 Business Plan, running from 1 April 2020 to March 2025, which we submitted to Ofwat in September 2018. After a period allowed for review and feedback, we received Ofwat's Final Determination in December 2019, setting our price controls with effect from 1 April 2020. The financial year for which we are reporting in this annual report is the final year of the previous price determination period (AMP6), which ran from April 2015 to March 2020.

## OUR REGULATORS



**Ofwat**  
ofwat.gov.uk



**The Water Redress Scheme (WATRS)**  
watrs.org



**Health and Safety Executive**  
hse.gov.uk



Comisiynydd y  
Gymraeg  
Welsh Language  
Commissioner

**Welsh Language Commissioner**  
comisiynyddygymraeg.cymru/  
english



**Cyfoeth  
Naturiol  
Cymru  
Natural  
Resources  
Wales**



**Environment  
Agency**

**Natural Resources Wales and  
Environment Agency**

naturalresources.wales

gov.uk/government/organisations/  
environment-agency



**Drinking Water Inspectorate**  
dwi.gov.uk



**The Consumer Council for Water**  
ccwater.org.uk

## OUR STRATEGY

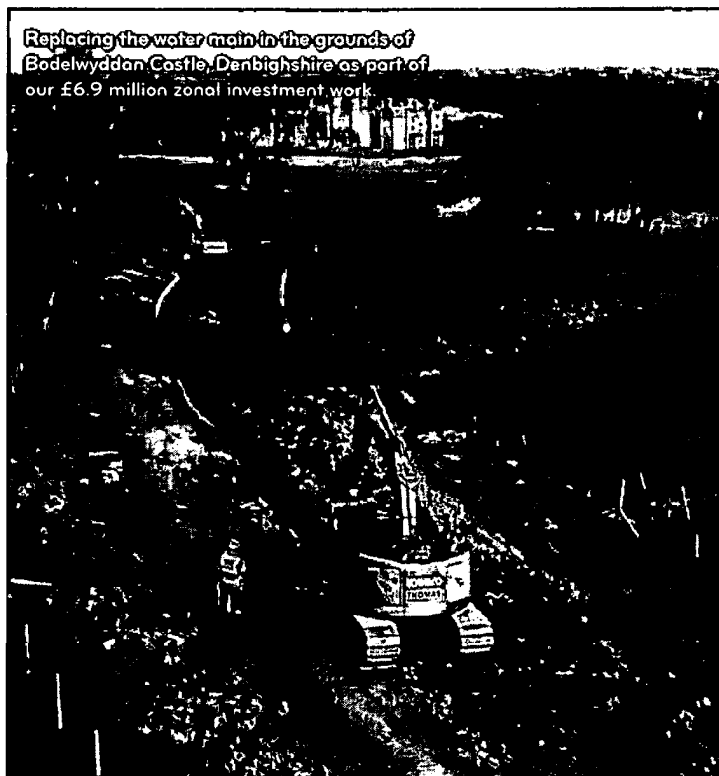
### STRATEGIC PRIORITIES

#### OUR PLAN: 2020–2025

In December 2019, Ofwat's Final Determination confirmed our business plan and investment priorities for the next five-year investment period. While this financial settlement is challenging for Welsh Water, it also includes an ambitious programme of investments that will benefit customers and improve the services we offer. The five-year programme involves more than £2.3 billion in capital investment, alongside a commitment to reduce bills in real-terms over the five-year period, with prices rising below the level of Consumer Price Index (CPI) measure of inflation.

This plan aims to invest to benefit customers, but also to strike the balance between investment and ensuring bills are as affordable as possible. In addition to meeting the water quality and environmental targets set by our regulators, our objectives for the next five years include the following targets:

- Continue to reduce leakage, over this AMP by 15% in next five years
- To provide a free service to customers to fix leaking toilets and taps in their homes
- To invest more to make sure our pipes and treatment works can withstand severe weather
- To reduce the number of customers who suffer repeated "hard to fix" problems such as low water pressure or sewer flooding
- To invest more in maintenance and technology to help us reduce the number of pollution incidents from 122 to 90 a year
- To replace lead pipes in up to 7,000 properties in the areas we serve
- To be producing by 2025 a third of the green energy we use from the sewage we treat, and from solar, hydro and wind power
- To increase the number of vulnerable customers on our priority service register – to receive extra help when their service is interrupted – from 26,000 to 100,000
- To provide Welsh language services to any customers who need them
- To expand our education programme to teach even more children about their water and environment, in schools and at our education centres
- To invest more in new and existing visitor centres across our area
- To RainScope more communities – reducing flooding in built up areas through clean, green solutions
- To make our reduced tariff available to more of those customers who are genuinely struggling to pay their bill
- To reduce our operating costs by 10%, predominantly by using innovation and technology to find better ways of doing things



We have already commenced work in key areas which will support achieving these ambitious targets:

| WHAT IS ALREADY HAPPENING?                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Water services</b>                       | <ul style="list-style-type: none"> <li>Brecon Beacons Mega Catchment – catchment management project fully funded and scoping underway, to reduce chemical use by improving water quality at source</li> <li>Plan to introduce 17 further zones to our Zonal Studies programme, to work to improve water quality by refurbishing or replacing pipes</li> <li>Project to identify and replace lead pipes in 7,000 customer properties has begun</li> <li>Following our work in the Rhondda Fach in 2015–2020, we are working to establish two more "Water Resilient Communities" in Rhyl and Rhymney-Bargoed, with plans for three more before 2025</li> </ul>                                                                                                                                                                                                                                                                                                                                                           |
| <b>Wastewater services</b>                  | <ul style="list-style-type: none"> <li>Planning underway for projects in Chester and Cardiff to install sustainable urban drainage measures, like RainScope and Greener Grangetown</li> <li>Working to install resilience measures at several wastewater treatment works and pumping stations before 2025</li> <li>Working to improve water quality in around 400km of rivers</li> <li>Deliver 35% energy self-generation</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Retail services</b>                      | <ul style="list-style-type: none"> <li>Expansion of our digital services, offering customers greater visibility and control over their account and their water and wastewater services</li> <li>Planning underway to introduce more flexible billing and payment methods for our household customers</li> <li>Maintaining and increasing the number of customers in need of extra support to pay their bills – an industry-leading 130,000 are already supported through these measures</li> <li>Working with the Welsh Government, Emergency Responder Services and other utilities to explore opportunities for sharing information to support vulnerable customers</li> <li>Sustaining our good performance in Ofwat's new customer measure of experience (C-MeX) assessment</li> <li>Working with academia and other water companies to improve our understanding of customer behaviour in key areas such as water efficiency, preventing sewer blockages and pollution, and moving to digital services</li> </ul> |
| <b>Retail services (business customers)</b> | <ul style="list-style-type: none"> <li>Continuing our service offering to business customers to review usage of our services to deliver environmental benefits to their business</li> <li>Deployment of self-service account information and tracking of delivery of services to customers – a continued focus on bearing down on customer bills</li> <li>Evolving our service and product offering</li> <li>Continuing our surface water removal incentive scheme and exploring the possibility of expanding this to business customers</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

# OUR STRATEGY

## WELSH WATER 2050

Our Welsh Water 2050 plan sets out the major challenges ahead of us as a business in the next 30 years, and exactly how we plan to meet them. The plan details 18 "strategic objectives" that identify the major issues facing Welsh Water and its customers, and how we plan to meet them. These range from long-term changes in climate and weather, and how we intend to invest in our developing resilience to these changes, to such as an ageing population, increasing customer expectations, and the opportunities presented by the increasing digitalisation of our economy.

Our vision is set within the policy context of the Welsh Government's Wellbeing of Future Generations Act (Wales) 2015 and Environment Act (Wales) 2016, and the plan outlines how we intend to become a truly world class, resilient and sustainable water service for the benefit of future generations.

Read welsh water 2050 online at: [dwrcymru.Com/or2020-ww2050](http://dwrcymru.Com/or2020-ww2050)

### DRINKING WATER



#### 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, while 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, and cyber attacks, 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 that is discoloured or has a poor taste. This will be addressed through a targeted replacement of iron mains.



#### 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.



## FUTURE GENERATIONS ACT – WELLBEING GOALS

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

## CUSTOMERS AND COMMUNITIES


**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.

**A B C E**


**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.

**B D G**


**9: SUPPORTING CUSTOMERS IN VULNERABLE CIRCUMSTANCES**

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.

**A C D**


**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.

**A D E**


**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.

**A C D F**


**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.

**D F G**


**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; solving problems before they impact on our business, our customers, or the environment.

**A B**

# OUR STRATEGY

## FUTURE GENERATIONS ACT – WELLBEING GOALS

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

## ENVIRONMENT



### 14: SUPPORTING ECOSYSTEMS AND BIODIVERSITY

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

**A B C D E G**



### 15: USING NATURE TO REDUCE FLOOD RISK AND POLLUTION

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

**A B C D E G**



### 16: CLEANER RIVERS AND BEACHES

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

**A B C G**



### 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.

**A B C**



### 18: PROMOTING A CIRCULAR ECONOMY AND COMBATTING CLIMATE CHANGE

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

**A B G**

## WELLBEING 2020

In March 2020, we launched our new "Wellbeing Commitments", which mark out how we intend to realise the ambitions of the seven wellbeing goals in the Future Generations Act, bringing together the aims of our 2020–2025 Business Plan and the longer-term Welsh Water 2050 plan. These commitments set out measurable targets to 2025 and beyond.

Read our wellbeing commitments online at: [dwrcymru.Com/ar2020-wellbeing](https://dwrcymru.Com/ar2020-wellbeing)

Our long-term plan is part of our wider social purpose, and our responsibility to safeguard water as a precious, national resource for our customers, and for future generations. That's why we've made working in the wider public interest and for the national benefit part of our constitution, and everyday way of working.

## A SNAPSHOT: OUR HIGHLIGHTS

| OBJECTIVES                     | OUR PROGRESS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Climate change</b>          | <p>We have invested in renewable technology across our sites, including major investments in treatment works at Five Fords (Wrexham), Cardiff East and Cog Moors (Vale of Glamorgan) to install advanced anaerobic digestion facilities.</p> <p>We have also committed to buying in energy through only green sources – as a result we have reduced our carbon footprint by nearly 80% since 2010.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Environment</b>             | <p>We were the first company in Wales to implement a Biodiversity Action Plan – setting out how we tackle issues that emerge from our activity, and how we can positively benefit the environment where we work. Our update report in 2019 shows that we are meeting the vast majority of the action plan targets.</p> <p>We also launched our Biodiversity Fund – awarding funding to local organisations for projects that improve the environment in the areas we serve. In 2019–2020 we've awarded more than £256,000 to these projects.</p>                                                                                                                                                                                                                                                                                       |
| <b>Customer expectations</b>   | <p>Our customers rightly expect a high-quality service from us, when they need it. They also expect us to work for the good of all our customers and have a positive effect on the world around us.</p> <p>We have been ranked top of Ofwat's C-MeX measure of customer satisfaction in its year of shadow operation, while we have also been ranked top of independent research by the Consumer Council for Water into customer satisfaction with services, and for customer trust in their water companies to do the right thing.</p> <p>Our Wellbeing Commitments set out several measures by which customers can see that we're working towards the good of the communities we work in. Our social purpose is part of our everyday approach to providing our services, and has now been enshrined in our Company constitution.</p> |
| <b>Promoting public health</b> | <p>We have a key role to play in helping maximise the wellbeing of customers, by promoting healthier and more sustainable lifestyles. That's why we take the responsibility of providing the best services possible so seriously.</p> <p>It's also why we've invested significantly in enabling more public access at our reservoirs with current investment programmes in Llys-y-Frôn to create a flagship water park in Pembrokeshire, and to restore Llanishen and Lisvane reservoirs in Cardiff to their former glory, creating a key public space for recreation and wellbeing.</p>                                                                                                                                                                                                                                               |
| <b>Employer of choice</b>      | <p>Having a dynamic, motivated workforce that reflects the communities we serve is a key priority for us. We've focused efforts on building an inclusive, welcoming environment so everyone, regardless of their background or characteristics, can be themselves at work.</p> <p>As such we have created inclusivity ambassadors to drive improvements that will build an inclusive environment throughout the company. This includes insisting on gender-balanced shortlists from our recruitment partners, so that making Welsh Water an attractive place to work for women is built into the process from the very start. We have also rolled out "unconscious bias" training for new leaders, as well as wider e-learning for all employees.</p>                                                                                  |

# OUR PERFORMANCE

## SIGNIFICANT EVENTS THAT ARE SHAPING OUR STRATEGY

### STORMS CIARA AND DENNIS

In February 2020, we faced unprecedented challenges across our operating area from severe weather. Storms Ciara and Dennis caused a month's worth of rainfall in around 24–48 hours, with south-east Wales and Herefordshire particularly badly affected. From 15–17 February, the incoming reports of damage to our infrastructure were considerable and arguably among the worst we have ever experienced as a business over such a short period.

To illustrate the scale of the pressure:

- Most of our reservoir dams were "on spill" – with the highest-ever overflow levels being recorded at Caban Coch in Elan Valley, as well as at Aled Isaf, Alwen, Pontsticill and Tolybont. We also saw landslips caused by excessive rainfall at various sites including Pontsticill, Nant-y-Moel near Hirwaun and Wentwood near Chepstow;
- Several water treatment works were severely affected by flooding, including Monmouth, Pontsticill, Llwyn Onn near Merthyr Tydfil, and Whitbourne works (and smaller sites) in Herefordshire. Services to customers were maintained throughout, despite these challenges;

- Communities across our operating area were affected by devastating flooding, including in areas like Trehafod, Pentre, Glynneath and Aberdulais. Our wastewater teams were deployed across these communities to help residents recover; and
- A further 26 wastewater treatment works suffered extensive flooding, particularly at Llanfaist in Abergavenny and Eign in Herefordshire, as well as 18 pumping stations across our network.

These combined challenges required an organisation-wide response, with a central response team engaging with colleagues from all areas of the Company.

### CORONAVIRUS

The impact of COVID-19 is still being felt at the time of publication – with unprecedented restrictions on the everyday lives of people across the UK introduced in late March.

As a responsible water company, with a commitment to the health of our people and the wellbeing of the communities we serve at our core, we acted to ensure that we contributed to the nationwide effort to combat the outbreak. This included acting promptly to mobilise home working for around two thirds of the Company's 3,500 employees. We quickly relocated our contact centre to home working, with minimal interruption to customer service.

Our key worker employees and our supply partners have continued to work out in our communities and sites to ensure services are maintained to customers. We stopped routine visits to customer premises, but where these are unavoidable we have made arrangements to enable them to be carried out safely, both for our colleagues and the customers. We scaled back our work in some areas to focus on essential resilience projects, always following Government guidance that supported the construction sector.

The Government restrictions led us to introduce unprecedented flexibility in working arrangements, to ensure colleagues with children could at the same time fulfil their work and care for their families. The Company also committed very early on not to furlough our workforce and to ensure everyone would be paid at their normal salary rate for the duration of the crisis. In response, our teams responded magnificently to protect the water and wastewater essential services that we provide, with individuals adopting amended shift patterns to deal with staff absences, and volunteering for cross-skilling training to enable them to provide cover for colleagues in operational teams.

To further support our customers and suppliers, respectively, we suspended our charges to affected business customers and put in place arrangements to expedite our payments to our suppliers.



### MONMOUTH:

We saw huge challenges in Monmouth in February 2020 – where our water treatment works in Mayhill was overwhelmed by flood water when the River Wye burst its banks. The levels of the river exceeded their highest-recorded point of seven metres – nearly a metre above the previous record – and the flooding of our site meant it lost power, threatening the supply to the community.

This led to our biggest-ever tanker operation – involving more than 50 tankers with the help of fellow water companies Bristol Water, Severn Trent, South West Water, United Utilities and Yorkshire Water – to maintain the water supplies to around 7,400 properties in the community, while we worked to gain access to the site and then restore it.

As a result, the disruption was restricted to 2,000 properties experiencing an intermittent supply only in the first 24 hours of the response. This happened alongside an extensive targeted bottled water programme, with collection points for all affected properties and delivery of supplies for anyone in need.

#### CASE STUDY

# HOW WE'RE DOING

To help us measure our performance, our Business Plan for 2015–2020 contained eight key "outcomes" that we wanted to achieve by 2020 for our customers, communities and the wider environment. These outcomes were based on our customers' priorities from our consultation in 2013.

| MEASURE OF SUCCESS † |                                                                | OFWAT<br>TARGET<br>2019–20 | 2019–20<br>OUT-TURN<br>VS OFWAT<br>TARGET | 2018–19 | 2019–20<br>OUT-TURN | 2019–20<br>VS<br>PREVIOUS<br>YEAR | BUSINESS<br>PLAN<br>2019–20<br>TARGET | 2019–20<br>VS<br>BUSINESS<br>PLAN<br>TARGET |
|----------------------|----------------------------------------------------------------|----------------------------|-------------------------------------------|---------|---------------------|-----------------------------------|---------------------------------------|---------------------------------------------|
| <b>1</b>             | <b>HIGH QUALITY DRINKING WATER</b>                             |                            |                                           |         |                     |                                   |                                       |                                             |
| A1A*                 | Safety in drinking water<br>(% compliance)                     | -                          | -                                         | 99.98%  | 99.98%              | ✓                                 | 99.99%                                | ✗                                           |
| A1B*                 | Safety in drinking water<br>(mean zonal compliance)            | 100%                       | ✗                                         | 99.97%  | 99.94%              | ✗                                 | 99.98%                                | ✗                                           |
| A2a*                 | Customer acceptability<br>(excluding private contacts)         | -                          | -                                         | 2.98    | 2.38                | ✓                                 | 2.40                                  | ✓                                           |
| A2b                  | Customer acceptability                                         | 1.23                       | ✗                                         | 3.28    | 2.80                | ✓                                 | 2.64                                  | ✗                                           |
| A3                   | Reliability of supply<br>(customer minutes lost)               | 12                         | ✗                                         | 16.04   | 14.71               | ✓                                 | 12                                    | ✗                                           |
| <b>2</b>             | <b>PROTECTING THE ENVIRONMENT</b>                              |                            |                                           |         |                     |                                   |                                       |                                             |
| B1                   | Abstraction of water for use                                   | 100%                       | ✓                                         | 100%    | 100%                | ✓                                 | 100%                                  | ✓                                           |
| B2*                  | Treating wastewater                                            | 100%                       | -                                         | 99.64%  | **                  | -                                 | 100%                                  | -                                           |
| B3A*                 | Preventing pollutions<br>(number of pollution incidents)       | -                          | -                                         | 123     | 122                 | ✓                                 | 112                                   | ✗                                           |
| B3b*                 | Preventing pollutions (category 3<br>pollution incidents only) | 131                        | ✓                                         | 118     | 120                 | ✗                                 | 112                                   | ✗                                           |
| <b>3</b>             | <b>RESPONDING TO CLIMATE CHANGE</b>                            |                            |                                           |         |                     |                                   |                                       |                                             |
| C1                   | Responding to climate change                                   | 25,000                     | ✗                                         | 15,967  | 22,211              | ✓                                 | 25,000                                | ✗                                           |
| C2                   | Carbon footprint<br>(GWh of clean energy)                      | 100                        | ✓                                         | 85.02   | 121.98              | ✓                                 | 125                                   | ✗                                           |

\* Measured by the calendar year (January 2019 to December 2019). Other outcomes are measured by the financial year (April 2019 to March 2020).

† A definition of each Measure of Success can be found in the Appendices on pages 213 to 214.

\*\* Figure not yet confirmed

A detailed comparison of our general performance on some key measures against that of other water and sewerage companies may be viewed on [discoverwater.org](http://discoverwater.org)

## SERVING OUR CUSTOMERS AND COMMUNITIES

| MEASURE OF SUCCESS : |                                             | OFWAT<br>TARGET<br>2019-20 | 2019-20<br>OUT-TURN<br>VS OFWAT<br>TARGET | 2018-19          | 2019-20<br>OUT-TURN | 2019-20<br>VS<br>PREVIOUS<br>YEAR | BUSINESS<br>PLAN<br>2019-20<br>TARGET | 2019-20<br>VS<br>BUSINESS<br>PLAN<br>TARGET |
|----------------------|---------------------------------------------|----------------------------|-------------------------------------------|------------------|---------------------|-----------------------------------|---------------------------------------|---------------------------------------------|
| <b>4</b>             | <b>CUSTOMER SERVICE</b>                     |                            |                                           |                  |                     |                                   |                                       |                                             |
| D1                   | Service incentive mechanism (SIM)**         | Top quartile               |                                           | 87               | 85***               |                                   | Top quartile                          | ✓                                           |
| D2                   | At risk customer service                    | 425                        | ✗                                         | 641              | 613                 | ✓                                 | 425                                   | ✗                                           |
| D3                   | Properties flooded in the year              | 269                        | ✓                                         | 221              | 216                 | ✓                                 | 222                                   | ✓                                           |
| D4a                  | Business customer satisfaction (%)          | -                          | -                                         | 89               | 90                  | ✓                                 | 88                                    | ✓                                           |
| D4b                  | Non-household customer satisfaction (%)     | 90                         | ✗                                         | 88               | 88                  | ✓                                 | 88                                    | ✓                                           |
| D5                   | Earning the trust of customers (%)          | 75                         | ✓                                         | 85               | 87                  | ✓                                 | 85                                    | ✓                                           |
| <b>5</b>             | <b>AFFORDABLE BILLS</b>                     |                            |                                           |                  |                     |                                   |                                       |                                             |
| E1                   | Affordable bills (% below inflation)        | -1                         | ✓                                         | -2               | -4                  | ✓                                 | -1                                    | ✓                                           |
| E2                   | Help for disadvantaged customers            | 100,000                    | ✓                                         | 120,783          | 129,148             | ✓                                 | 100,000                               | ✓                                           |
| <b>6</b>             | <b>LOOKING AFTER OUR ASSETS</b>             |                            |                                           |                  |                     |                                   |                                       |                                             |
| F1                   | Asset serviceability                        | Stable (x4)                | ✓                                         | Stable (x4)      | Stable (x4)         | ✓                                 | Stable (x4)                           | ✓                                           |
| F2                   | Leakage (Ml per day)                        | 169                        | ✓                                         | 169.5            | 168                 | ✓                                 | 169                                   | ✓                                           |
| F3                   | Asset resilience (water)                    | 87                         | ✓                                         | 90.2             | 90.2                | ✓                                 | 89                                    | ✓                                           |
| F3                   | Asset resilience (wastewater)               | 78                         | ✓                                         | 79               | 81.9                | ✓                                 | 78                                    | ✓                                           |
| <b>7</b>             | <b>DEVELOPING AND PROTECTING OUR PEOPLE</b> |                            |                                           |                  |                     |                                   |                                       |                                             |
| G1                   | RIDDOR incidents                            | -                          | -                                         | 8                | 8                   | ✓                                 | 10                                    | ✓                                           |
| G2                   | Competence in role (%)                      | -                          | -                                         | 88               | 83                  | ✗                                 | 95                                    | ✗                                           |
| <b>8</b>             | <b>EFFICIENT BUSINESS</b>                   |                            |                                           |                  |                     |                                   |                                       |                                             |
| H2                   | Financing efficiency (credit rating)        | -                          | -                                         | ANeg/<br>A2Neg/A | A-/A3/A             |                                   | A/A3/A                                |                                             |

\*\* For AMP7, Ofwat has replaced SIM with C-MeX (see Glossary page 210 for definitions). Welsh Water came top in the shadow report on C-MeX for 2019-2020

\*\*\* The score for 2019-20 is based on a SIM proxy calculation as SIM did not operate, as Ofwat were operating C-MeX as a shadow year.

## SERVING OUR CUSTOMERS AND COMMUNITIES

## LOOK BACK: 2015–2020

Between 2015 and 2020, we invested £1.3 billion in our services which provided up to an estimated £1 billion boost to the Welsh economy, supporting over 6,000 jobs and delivering resilient services for the future and progress towards our Welsh Water 2050 goals.

In our **2015 Annual Report** we set out a number of ambitious key regulatory targets that we were aiming to meet by 2020. As we reach the end of AMP6, we have set out over the following pages the progress we have made during the last five years towards meeting those challenges.

## OUTCOME

## 1

## HIGH-QUALITY DRINKING WATER

Providing high-quality, affordable drinking water is central to our core purpose – and a top priority for our customers.

| OUR TARGET                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | OUTCOME                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>In 2015, we targeted that by 2020, we would:</b></p> <ul style="list-style-type: none"> <li>strive to ensure that the drinking water we supply meets 100% of the Drinking Water Inspectorate's quality standards (2014: 99.94%).</li> <li>reduce the number of occasions on which customers contacted us about the appearance, taste or odour of drinking water by 50% (2014: 3.53 contacts per 1,000 population).</li> <li>reduce the average number of minutes that affected customers are without water during the year by at least 66% as set by Ofwat (2014–15: 23 minutes).</li> </ul> | <p><b>At the end of 2019–20*, we have:</b></p> <ul style="list-style-type: none"> <li>achieved some improvement for Mean Zonal Compliance (drinking water quality standard) over the period 2014–2018 (2018–2019: 99.97%). However, taste and odour and iron discolouration issues meant we only achieved 99.94% compliance in 2019.</li> <li>seen a steady improvement year-on-year on this measure from 3.08 contacts per 1,000 population in 2015 to 2.80 contacts per 1,000 population in 2019. This, however, falls short of the 50% reduction set by Ofwat in the PR14 Final Determination.</li> <li>improved our performance on this measure and in 2019–20 achieved 14.71 minutes despite dealing with significant mains bursts caused by severe weather events (2018–19: 16.04 minutes). If we had not had a significant trunk main burst in Hereford in November 2019, the outcome would have been 11.35 minutes.</li> </ul> |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

## HIGHLIGHTS:

- We made good progress towards meeting our 100% Mean Zonal Compliance target for the AMP, reaching 99.97% in 2016 and 2018, although our performance fell back in 2019 (see table above).
- Our ongoing investment in zonal studies programmes to restore or replace pipes will reduce discolouration and is already yielding benefits in reductions in customer contacts for acceptability of water in some areas.

## CHALLENGES:

- The numbers of contacts we received from customers about the appearance, taste or odour of water reduced in 2019. Longer term, while we have made good progress towards meeting our 2015–2020 target to halve the number of contacts, there remains more to do to meet that target, and we have committed to building on this progress in our next investment period.
- As a result of the operational challenges of a burst trunk main in Hereford in November 2019, and of Storms Ciara and Dennis, our average minutes lost per customer for 2019–20 is 14.71 (2018–19: 16.04) – a reduction of some 36% on our starting point for AMP6, although we have not yet managed to meet our targeted performance for this measure. We recognise we have further to go and this remains a prime focus of our investment in AMP7.

27,733km

WATER PIPES ACROSS OUR AREA

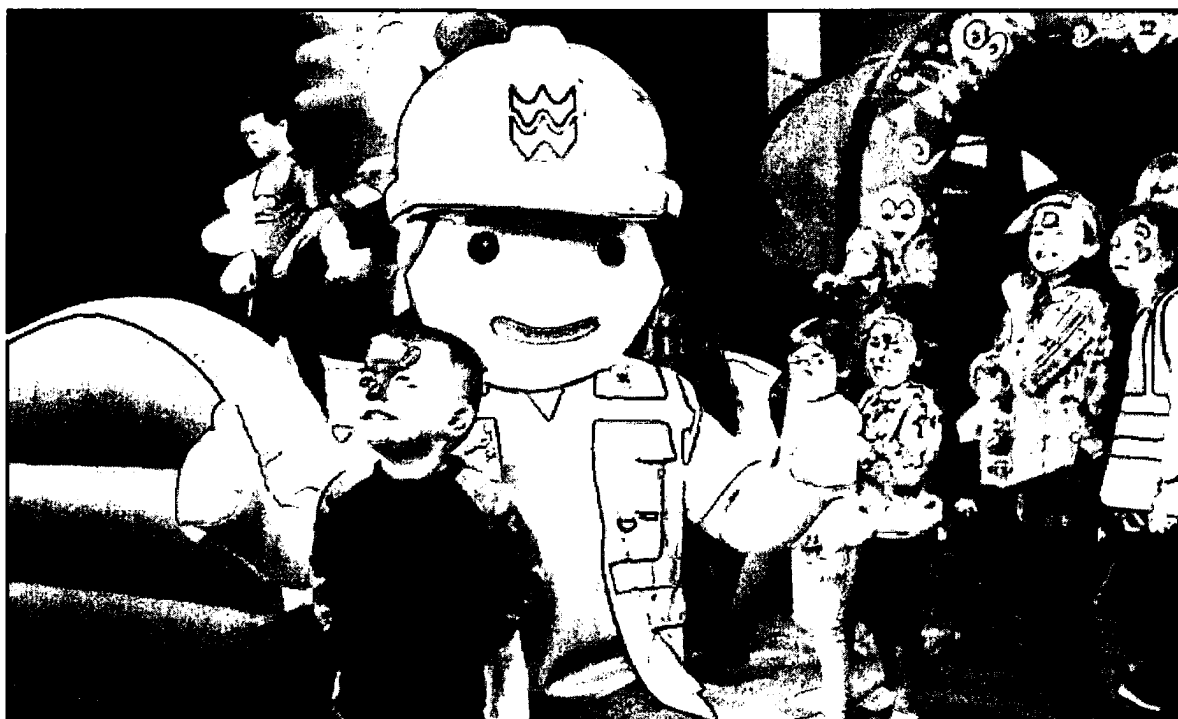
64

WATER TREATMENT WORKS

£766m

INVESTMENT IN WATER SERVICES  
2015-20

| Actual performance     | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | FD target – 2019-20                |
|------------------------|---------|---------|---------|---------|---------|---------|------------------------------------|
| Mean zonal compliance  | 99.94   | 99.96   | 99.97   | 99.96   | 99.97   | 99.94   | 100%                               |
| Customer acceptability | 3.53    | 3.08    | 3.20    | 3.19    | 3.28    | 2.80    | 1.23 contacts per 1,000 population |
| Reliability of supply  | 23      | 21.74   | 12.15   | 43.3    | 16.04   | 14.71   | 12 minutes                         |



### ISLAND OF ANGLESEY:

In June 2019, we completed a large-scale project to replace or cleanse more than 220km of water pipes across the island of Anglesey, as part of a wider investment programme targeting areas that see repeated problems with the reliability of their supply. This £15 million investment started in 2017 and involved huge engagement with communities across the island, including community groups, schools and political representatives for the area.

**Rhun ap Iorwerth MS (Ynys Mon/Anglesey):** "Before this work happened in Amlwch, people would contact me complaining about the water. Of course, the work has been a bit of a nuisance and disruptive to a lot of people, but I think most people understand that the work needed to be done. Now, thank goodness for clean water for people to drink. We can't live without water! I think that this event in Amlwch shows that the relationship between Welsh Water and this wonderful community has remained strong throughout the work, so thank you very much."

### CASE STUDY

## PROTECTING THE ENVIRONMENT

While customers have always expected us to provide clean drinking water and safely take away their wastewater, our purpose extends beyond just fulfilling these services. We actively look to enhance and protect the world around us as we work.

| OUR TARGET                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | OUTCOME                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>In 2015, we targeted that by 2020, we would:</b></p> <ul style="list-style-type: none"> <li>• strive to meet 100% of the requirements set out in the abstraction licences from our regulator, Natural Resources Wales.</li> <li>• strive to meet 100% of the standards set by Natural Resources Wales' permits for the return of treated sewage to the environment (2014: 99.1%).</li> <li>• reduce the number of times we cause pollution due to failures at our works or problems with our sewers.</li> </ul> | <p><b>At the end of 2019–20*, we have:</b></p> <ul style="list-style-type: none"> <li>• met the 100% target (rounded) for compliance with abstraction licences for every year across 2015–20.</li> <li>• seen a steady improvement in this measure for wastewater treatment works compliance (2014: 99.13% to 2018: 99.64%); however, performance deteriorated in 2019 (awaiting confirmation of performance figure).</li> <li>• beaten our target for number of pollution incidents with 120 incidents in 2019–20 (against an Ofwat target of no more than 131).</li> </ul> |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

### HIGHLIGHTS:

- We have achieved our target of 100% compliance with abstraction licences.
- We have beaten our target of no more than 131 pollution incidents per annum – in 2019–20 we had 120 category three incidents (and two category 1 and 2 incidents) from our treatment works and pipes.
- We are working to complete our £123 million (over 11 years) RainScape investment programme in Gowerton and Llanelli by December 2020 – our green solution to reduce flooding in communities and spills from CSOs into the Loughor Estuary.

### CHALLENGES:

- We have not yet met our target for 100% compliance at wastewater treatment works, and will continue to strive to meet this target during 2020–25.
- The severe weather incidents in February saw extreme rainfall in large parts of our operating area and were the cause of a number of flooding incidents, particularly in south and south-east Wales. In AMP7, we will redouble our efforts to reduce the numbers of flooding incidents where our assets are a contributing factor.

834

WASTEWATER TREATMENT  
WORKS

36,600km

SEWER PIPES ACROSS  
OUR AREA

£5m

ANNUAL SPEND UNBLOCKING  
SEWERS

| Actual performance               | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | FD target – 2019-20 |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------------------|
| Water Abstractions               | 100     | 100     | 100     | 100     | 100     | 100     | 100%                |
| Treating Wastewater              | 99.13   | 98.59   | 99.47   | 98.21   | 99.64   | *       | 100%                |
| Pollution Incidents (Category 3) | 117     | 110     | 111     | 112     | 118     | 120     | 131                 |

\* Performance figure not yet available

**COG MOORS:**

Our project in Cog Moors Wastewater Treatment Works, in Barry in the Vale of Glamorgan, amounts to one of our biggest single projects in the 2015–2020 investment period. The works serves a population of around 200,000, and treats wastewater for Dinas Powys, Sully, Penarth, Barry and the West of Cardiff. With an investment of over £50 million, we have installed an advanced anaerobic digestion plant at the site along with other improvements at the wastewater treatment works, to boost the amount of clean, green biogas energy produced from sludge that can be used to generate electricity.

CASE STUDY

## RESPONDING TO CLIMATE CHANGE

As a responsible water and wastewater service provider, we have a duty to work to not only mitigate the effects of long-term climate change, but to work actively to reduce our carbon footprint and effect on the environment. That's why we have invested in renewable energy across all the areas we serve, and why we work hard to reduce the amount of energy we use across all of our sites.

| OUR TARGET                                                                                                                                                                                                                                                                                                                                                                                                                                              | OUTCOME                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>In 2015, we targeted that by 2020, we would:</b></p> <ul style="list-style-type: none"> <li>• help prevent flooding by significantly reducing the amount of surface water entering our sewer network (increased from the equivalent run-off from the roofs of 1,000 properties to that of 25,000 properties).</li> <li>• generate enough energy from renewable sources to power the equivalent of 22,000 homes (2014-15: 9,000 homes).</li> </ul> | <p><b>At the end of 2019-20*, we have:</b></p> <ul style="list-style-type: none"> <li>• diverted run off surface water, which is the equivalent of run-off from 22,211 roofs, away from the combined sewerage system.</li> <li>• since 2015, increased our self-generation capacity for clean energy (hydro, wind power, solar photovoltaics, anaerobic digestion facilities), to power to fuel the equivalent of 36,000 homes.</li> </ul> |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

### HIGHLIGHTS:

- Our key measure on how we are performing in our efforts to mitigate and tackle climate change is the amount of surface water we prevent entering our sewer network, which stretches to more than 36,600km – nearly enough to circumnavigate the earth. Despite the difficult weather conditions during winter 2019-20, we have significantly increased the amount of water run-off we have diverted to an equivalent area of 22,211 house roofs in 2019-20. This has been helped significantly by the adoption of sustainable urban drainage projects, particularly in areas like Llanelli and Gowerton, and Grangetown, Cardiff, which use sustainable means such as the installation of swales, rain gardens and other natural drainage features to absorb, divert and slow down rainwater from entering our network.
- We have exceeded our target of generating enough power to fuel 22,000 homes – in 2019-20 we generated sufficient power to fuel the equivalent of 36,000 homes, produced from hydro power, anaerobic digestion, wind and solar photovoltaic over the period.
- We have made significant strides in reducing our carbon footprint, with a nearly 80% reduction in total emissions as a business since 2010. Taking into account carbon dioxide absorption from forestry on our landholdings, we now absorb more carbon dioxide than we produce.

### CHALLENGES:

- While our climate change efforts have resulted in a substantial reduction in our emissions, we continue to deal with the long-term effects of changing weather patterns – the flooding incidents of Storms Ciara and Dennis demonstrating the impact on customers of extreme rainfall. Over a 48-hour period in mid-February, a Natural Resources Wales site at Crai Reservoir in Powys recorded 157.6mm of rainfall, while the rise in river levels in Monmouth flooded our treatment works necessitating a week-long operation to restore and disinfect the works, while we maintained customer supplies by tankering water from other areas. As part of our efforts to make our infrastructure more resilient to these effects, over the next five years, we will focus on increasing asset resilience and flexibility to react to increasingly intense weather conditions.

24,000

SOLAR PANELS ACROSS OUR  
SITES

59 GWh

ENERGY PRODUCED FROM  
SLUDGE PROCESSING FACILITIES

24%

ENERGY WE USE GENERATED  
FROM OUR OWN RENEWABLE  
SOURCES

| Actual<br>Performance                                    | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | FD target –<br>2019-20 |
|----------------------------------------------------------|---------|---------|---------|---------|---------|------------------------|
| Responding<br>to climate<br>change (roof<br>equivalents) | 1,531   | 13,661  | 15,097  | 15,967  | 22,211  | 25,000                 |
| Carbon<br>footprint –<br>water (GWh)                     | 50.21   | 37.49   | 42.38   | 32.59   | 45.25   | 17.78                  |
| Carbon<br>footprint –<br>waste (GWh)                     | 47.16   | 49.01   | 55.51   | 52.43   | 76.73   | 82.22                  |



#### SELF-SUFFICIENCY OF OUR MAJOR SITES:

We have continued our investment to improve the self-sufficiency of our major sites, reduce costs and improve our carbon footprint. For instance, we have fitted over 3,600 energy efficient light fittings across the business, saving the equivalent annual power consumption of over 300 homes. We also completed the installation of solar "farms" at five locations generating the equivalent of the annual power consumption of 120 homes. This is combined with larger investments in assets that will be cleaner and greener, such as the Advanced Anaerobic Digestion investment in Five Fords Energy Park in Wrexham.



## EXCELLENT CUSTOMER SERVICE

Our Welsh Water 2050 plan shows how important it will be for us to meet, and exceed, the rising expectations of our customers. As a not-for-profit Company, our customers are at the heart of what we do and our biggest priority – and we need to work to continue to meet their service expectations and also to benefit the communities in which we work.

| OUR TARGET                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | OUTCOME                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>In 2015, we targeted that by 2020 we would:</b></p> <ul style="list-style-type: none"> <li>remain in the top three of all 10 water and sewerage companies for customer service (2014–15: joint second against Ofwat's Service Incentive Measure.</li> <li>improve the service received by 50% of our most "at risk" customers. These are customers who suffer from repeat problems with the services we provide e.g. interruptions to supply or sewer flooding.</li> <li>maintain business customer satisfaction at 90% (2014–15: 89%).</li> </ul> | <p><b>At the end of 2019–20* we have:</b></p> <ul style="list-style-type: none"> <li>achieved first position across all water and sewerage companies (and water only companies) in England and Wales against Ofwat's new C-MeX customer service measure.</li> <li>reduced numbers of customers from the "at risk" register from 702 in 2014–15 to 613 in 2019–20.</li> </ul> |
| <ul style="list-style-type: none"> <li>reduce sewer flooding incidents by 9% (from 265 a year).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>surveyed our non-household customers twice a year and rated their satisfaction on a scale of 1 (very dissatisfied) to 5 (very satisfied). The average of these scores provide a score out of 5 and this is then converted to a percentage figure. We have missed our target on this measure, achieving 88% in 2019–20.</li> </ul>     |
| <ul style="list-style-type: none"> <li>increase customer trust to 75%.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>seen a reduction in the number of properties suffering internal sewer flooding to 216 properties in 2019–20, and have achieved our Ofwat FD target.</li> <li>achieved a steady improvement on this measure, which stands at 87%.</li> </ul>                                                                                           |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

### HIGHLIGHTS:

- We have scored highly against Ofwat's new customer measure of experience (C-MeX), achieving first place with an average score of 84.10 (YTD).
- We achieved the highest ranking of any water company in England and Wales for customer trust and satisfaction, according to the UK Customer Service Institute ratings of companies.
- Our high business customer satisfaction has been maintained from last year (2019: 88%).
- We recently achieved the best-ever ranking for a utility company in the UK Customer Service Institute: the first water company to ever make the Top 50 companies in the UK.
- We have seen a steady reduction in the number of properties suffering internal sewer flooding, and have achieved our Ofwat FD target.
- Our current rating for customer trust in 2019–20 is 87% according to Ofwat's latest survey results (2018–19: 85%), which maintains the industry-leading levels of customer trust that have been reflected consistently in independent research from the Consumer Council for Water.

### CHALLENGES:

- Our success in reducing the number of customers categorised as being "at risk" has been mixed, with the number of customers across both water and wastewater services relatively static at 613 (2019: 641). We have seen modest reductions in those at risk of problems with their wastewater services (98, compared to 105 last year), and at risk of water supply problems (515 in 2019–20, compared to 536 in 2018–19). We are continuing to invest in major renewal projects through our Zonal Studies project and other capital projects to address this.

**Ranked 1st**CUSTOMER SERVICE MEASURE  
(C-MeX)**88%**SCORE FOR BUSINESS CUSTOMER  
SATISFACTION**87%**

SCORE FOR CUSTOMER TRUST

| Actual performance                    | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20     | FD target – 2019-20 |
|---------------------------------------|---------|---------|---------|---------|---------|-------------|---------------------|
| <b>SIM</b>                            | 82      | 83      | 83      | 85      | 87      | 1st (C-MeX) | Upper quartile      |
| <b>At risk customer numbers</b>       | 702     | 648     | 575     | 613     | 641     | 613         | 425                 |
| <b>Business customer satisfaction</b> | 89      | 88      | 89      | 87      | 88      | 88          | 90                  |
| <b>Sewer flooding</b>                 | 265     | 223     | 242     | 221     | 221     | 216         | 269                 |
| <b>Earning the trust of customers</b> | 79      | 81.9    | 85      | 84      | 85      | 87          | 75                  |

**BEST CUSTOMER EXPERIENCE AWARD 2019:**

Our customer-led success model has put customer need and meeting expectations at the core of what we do. As such, we have worked to invest in customer service to earn the trust of our customers. This has led to being recognised with the Best Customer Experience award at the UK Customer Satisfaction Awards, run by the Institute of Customer Service (ICS) – the only professional body for customer service. We beat off strong competition from other shortlisted companies including Aviva, Suzuki, Bupa, and fellow utility Woles & West. In January 2020, Welsh Water was recognised by ICS as a sector leader – the first water company to be ranked in the Top 50 companies in the UK for customer service. We were also the highest-ranked of all UK utilities in the research – a strong base from which to build in years to come.

**CASE STUDY**

## AFFORDABLE BILLS

As a Company, we are at the heart of the communities we serve. A number of areas we serve are among the most deprived in the UK, and we have a duty to support those who genuinely need help to pay their water bills. That's why we're supporting more customers with special tariffs than any other Company – in part funded from Company profits.

| OUR TARGET                                                                                                                                                                                                                                                                                                                                                                                                              | OUTCOME                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>In 2015, we targeted that by 2020 we would:</b></p> <ul style="list-style-type: none"> <li>have kept our annual price increase below the rate of inflation for 10 consecutive years (2010–2020).</li> <li>have expanded our range of help so that up to 100,000 of our customers who are genuinely struggling to pay their bills benefit through our range of social tariffs (2014–15: around 50,000).</li> </ul> | <p><b>At the end of 2019–20* we have:</b></p> <ul style="list-style-type: none"> <li>been the only water and sewerage company in England and Wales to maintain average bill increases below the rate of inflation for 10 consecutive years.</li> <li>improved each year on this measure and have exceeded the target of 100,000, with just under 130,000 customers now benefiting from social tariffs and additional numbers of customers (up to 133,000 in total) benefitting from some form of financial assistance to help them to pay their water bills.</li> </ul> |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

### HIGHLIGHTS:

- In 2015, we pledged that we would support 100,000 people in genuine need of help to pay their water bills. We met this target two years early and have continued to exceed it. We currently support over 130,000 customers with our range of social tariffs and other financial assistance (2019–20: 120,783 PR14 Measure).
- We have also continued our efforts to limit increases in average household customer bills overall, with 2020 marking 10 consecutive years of below-inflation average bill increases for Welsh Water customers according to the Retail Prices Index (RPI) measure of inflation.

### CHALLENGES:

- We know that customers' circumstances can change, and we encourage customers to contact us if they have difficulty paying their water bill, so that we can review the range of options available, which may include fitting a water meter to help customers to manage their consumption, and/or providing financial assistance to enable customers to pay their water bills, where appropriate.

133,000

LOW INCOME HOUSEHOLDS  
RECEIVING FINANCIAL SUPPORT

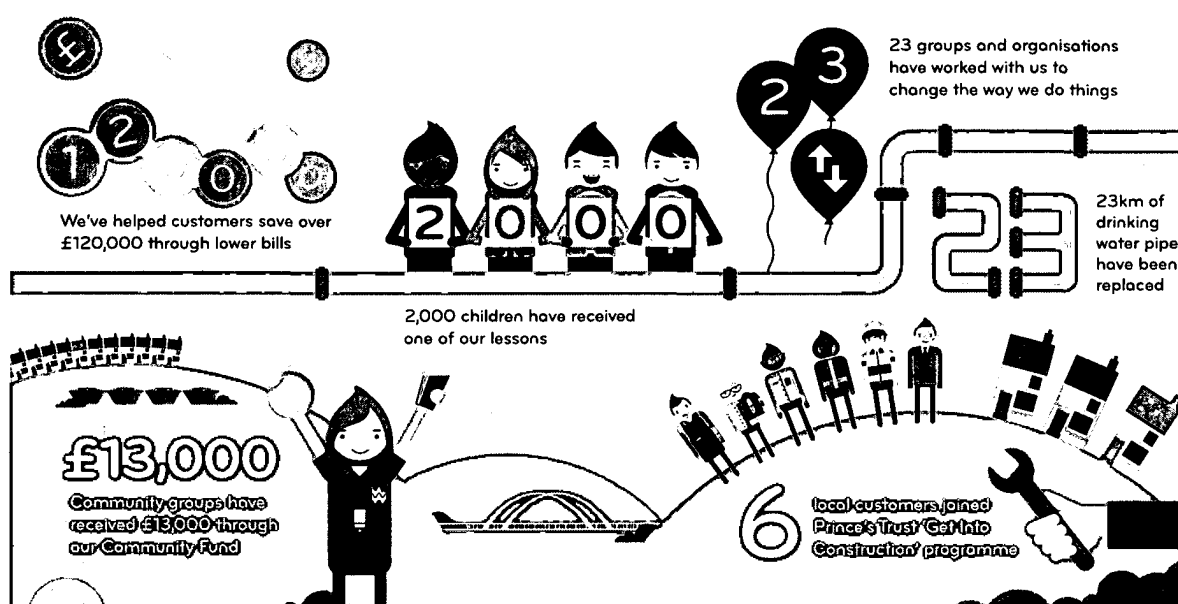
£200

CAP ON ANNUAL BILLS FOR  
HELPU CUSTOMERS

10 years

BELOW-INFLATION PRICE  
INCREASES

| Actual Performance                                | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | FD target – 2019-20 |
|---------------------------------------------------|---------|---------|---------|---------|---------|---------------------|
| Affordable bills – household                      | -3%     | -1%     | -2%     | -2%     | -4%     | -1.00%              |
| Affordable bills – non-household                  |         |         | -1%     | 1%      | -10%    |                     |
| Help for disadvantaged customers (social tariffs) | 48,734  | 65,461  | 100,999 | 120,783 | 129,148 | 100,000             |



### HELPU:

The Water Resilient Communities project challenges us to work with and involve customers in a way that we haven't done before, by working with customers to co-create and co-deliver more resilient services. As part of our second project in Rhyl (North Wales), we continue to reach out to and work with vulnerable customers and organisations that support them. We started a partnership with the Department for Work and Pensions (DWP) at Rhyl JobCentre, to signpost their users the support they could have with paying their bills, like HelpU, and reducing debt they had on their accounts. In one example, a customer with more than £1,000 of arrears was able to sign up to a plan that will have their debt written off, and many others were able to save hundreds of pounds. This work runs alongside other activity across the town – with training given to staff at Denbighshire Council, Community Navigators and Citizens' Advice, as well as attending events including drug and alcohol charity CAIS, Winter Warmer, and awareness raising sessions held at the Landlord Forum and Care and Repair.

### CASE STUDY

## LOOKING AFTER OUR ASSETS

Our presence across the areas we serve is extensive – we own 64 water treatment works, 834 wastewater treatment works, maintain around 27,700km of water pipes and 36,600km of sewers, and own assets with a replacement cost of over £30 billion. We also invest more than £1.2 million a day to ensure these assets work to benefit our customers – totalling around £450 million last year.

| OUR TARGET                                                                                                                                                                                                                                                                                                                                                                                                                                                             | OUTCOME                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>In 2015, we targeted that by 2020 we would:</b></p> <ul style="list-style-type: none"> <li>improve the resilience score of our most strategic assets to 87% (water assets) and 78% (wastewater assets) (2014–15: water 84.7%, wastewater 76.6%).</li> <li>further reduce leakage levels by 6% to 169 MI/day (2014–15: 180).</li> <li>maintain our assets as "stable" against Ofwat's criteria which means they are performing well (2014–15: stable).</li> </ul> | <p><b>At the end of 2019–20* we have:</b></p> <ul style="list-style-type: none"> <li>improved on both the water and wastewater resilience scores over the period beating the five-year target, achieving 90.2% (water assets) and 81.9% (waste assets).</li> <li>beaten the five-year target for leakage reduction by reducing leakage to a record low of 168 MI/d.</li> <li>maintained a "stable" assessment against the serviceability basket of measures across the AMP period.</li> </ul> |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

### HIGHLIGHTS:

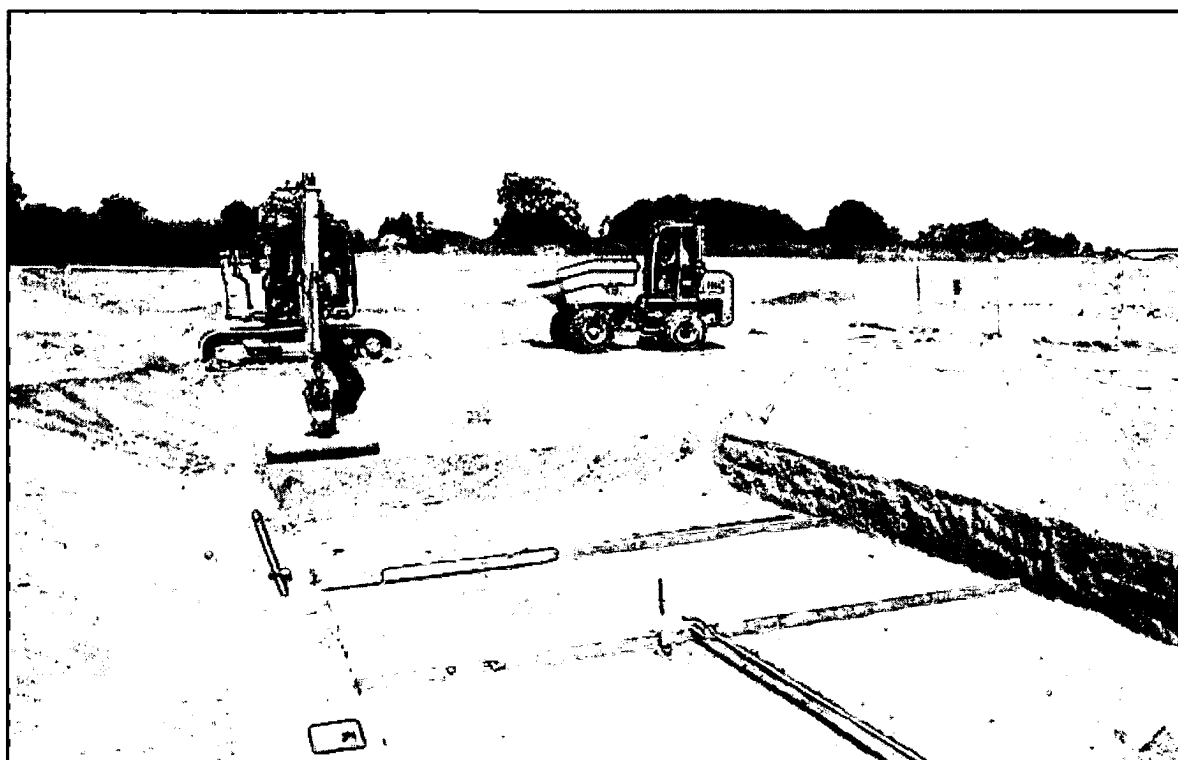
- The long-term serviceability of our assets is measured by our regulator, Ofwat, through an overall rating of "improving", "stable", "marginal", or "deteriorating". Our rating remains at "stable" across all measures, which is unchanged over several years.
- Our leakage performance has also beaten our stringent target for the year of 169 MI/day, reducing leakage to a record low of 168 MI/day (2019: 169.5 MI/day), despite the extreme weather events of Storms Ciara and Dennis in late winter 2019–20.
- The resilience of our water and wastewater assets has also remained strong, with a score of 90.2 out of 100 for our water assets this year (2019: 90.2), while wastewater resilience has scored 81.9 (2019: 79).

### CHALLENGES:

- The impact of severe winter weather tested the resilience of our network, particularly in south and south-east Wales, and the land around our assets – with our water mains sometimes in proximity to land which was saturated, in some cases precipitating land slips. This poses a long-term challenge for the business to ensure our assets are protected from similar events in future, but also created an immediate cost (£18 million) of dealing with the impact of Storms Ciara and Dennis.

**£450m**VALUE OF CAPITAL INVESTMENTS  
2019-20**£30b**ESTIMATED COST OF  
REBUILDING ASSETS**£24m**INVESTMENT IN PRIORESS MILL  
PUMPING STATION

| Actual performance          | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | FD target – 2019-20 |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------------------|
| Asset resilience water      |         | 88.2    | 89.5    | 90.4    | 90.2    | 90.2    | 87                  |
| Asset resilience wastewater |         | 73.6    | 73.6    | 77.5    | 79.0    | 81.9    | 78                  |
| Leakage                     | 179.5   | 179.9   | 175.4   | 172.9   | 169.5   | 168     | 169                 |
| Serviceability              |         | Stable  | Stable  | Stable  | Stable  | Stable  | Stable              |

**IMPROVING HEREFORD'S DRINKING WATER NETWORK:**

As part of efforts to improve the performance of Hereford's drinking water network, we invested more than £8.5 million in essential works to install a brand new large water pipe between Bewdley Bank Reservoir and the outskirts of Hereford. The work, which kicked off in September 2017 and finished at the end of last year, will allow the network to operate more effectively during periods of high demand – ensuring security of supply and helping with issues currently experienced by some customers in the area such as loss of supply or low water pressure.

**CASE STUDY**

## DEVELOPING AND PROTECTING OUR PEOPLE

Our greatest ambassadors are our people – all 3,514 of them. As one of the largest employers in Wales, our duty is to ensure each of them is supported to do their job to the best of their ability – and that they remain safe and well to go home at the end of the day.

| OUR TARGET                                                                                                                                                                                             | OUTCOME                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>In 2015, we targeted that by 2020, we would:</p> <ul style="list-style-type: none"> <li>ensure that at least 95% of all our colleagues are trained to be fully competent for their role.</li> </ul> | <p>At the end of 2019–20*, we have:</p> <ul style="list-style-type: none"> <li>achieved a score for fully competent colleagues of 83%. While we have not met the target score, as we train individuals to be fully competent in role, we have been joined by new starters who begin their development into the roles. Some training was cancelled in early 2020 as a result of the pandemic restrictions.</li> </ul> |
| <ul style="list-style-type: none"> <li>have no more than 10 RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) injuries (2014–15: 20).</li> </ul>                          | <ul style="list-style-type: none"> <li>seen a steady reduction in RIDDORs and for the last two years come in under the internal target of 10 RIDDORs, achieving an outcome of eight RIDDORs across the business.</li> </ul>                                                                                                                                                                                          |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

### HIGHLIGHTS:

- Our recent progress in preventing serious, reportable injuries and illnesses has remained stable in the last year, with only eight RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) injuries reported (meeting our challenge for the AMP). This is a considerable improvement on our performance a decade ago when we reported 24 such incidents during 2010–2011. Notwithstanding this, our culture of continuous improvement and Company-wide commitment for each individual to take responsibility for their own, and others', safety through Safety Takes Every Person means we will redouble our efforts to return to an improving picture next year on our Journey to Zero injuries.

### CHALLENGES:

- Our duty to develop our people is measured by our Competence in Role measure – as we train and develop existing colleagues, we are joined by new starters who need to be trained to become fully competent in their roles. We recognise we still have further to go to meet our goal of 95% trained to be fully competent.

3,514

EMPLOYEES

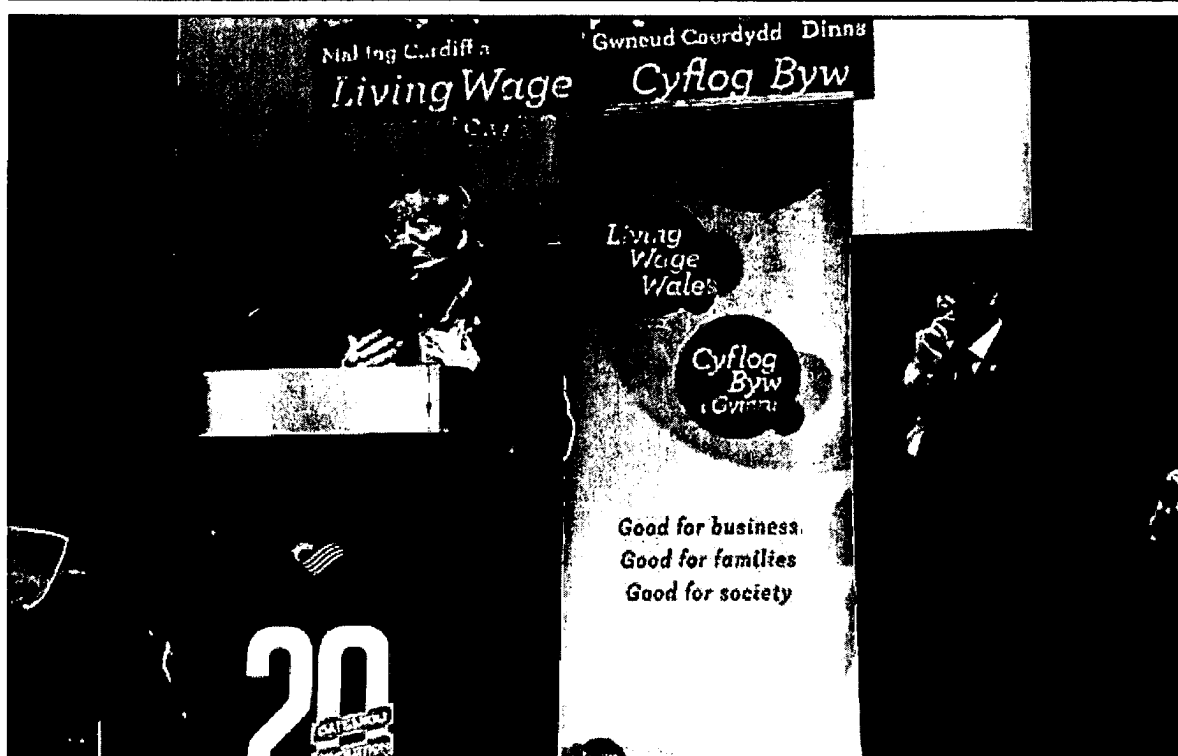
10

GRADUATES JOINED 2019-20

23

APPRENTICES JOINED 2019-20

| Actual performance | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | Internal business plan target – 2019-20 |
|--------------------|---------|---------|---------|---------|---------|---------|-----------------------------------------|
| Competency in role | 87.6    | 88.1    | 87      | 82      | 88      | 83      | 95                                      |
| Health and safety  | 20      | 19      | 12      | 14      | 8       | 8       | 10                                      |



### LIVING WAGE EMPLOYER:

In November, we were recognised as a company that ensures fair pay for a hard day's work – with accreditation as a Living Wage Employer by the Living Wage Foundation. Chief Executive, Chris Jones, joined other exemplar employers on stage for an event to celebrate Cardiff becoming one of the first Living Wage Cities – and the Company was cited because of our efforts to both pay our people a fair wage, and also to encourage supply chain partners to pay the Living Wage.

### CASE STUDY

## AN EFFICIENT BUSINESS

As a Company owned on behalf of our customers, we are committed to running our business as efficiently as possible – working to be as innovative as possible, and to reduce waste across everything we do. This also means we work for the long-term – planning our investments over decades, not just for short-term targets.

| OUR TARGET                                                                                                                                                                                                                                                                                                                                  | OUTCOME                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>In 2015, we targeted that by 2020 we would:</p> <ul style="list-style-type: none"> <li>maintain our A grade credit rating to ensure that we can continue to access low-cost, long-term finance (2014-15: A grade).</li> <li>reduce our controllable operating costs by around 20% (2014-15: operating cost was £295 million).</li> </ul> | <p>At the end of 2019-20* we have:</p> <ul style="list-style-type: none"> <li>maintained investment grade credit ratings with all three major credit rating agencies (Fitch, Moody's, Standard and Poor's).</li> <li>reduced our operating costs over the AMP, but not by as much as we had planned (savings have been offset by additional spend for example in responding to extreme weather events). This remains a major challenge for us given the targets for costs reduction for AMP7.</li> </ul> |

\* or 2019 for calendar year measures

> FOR FURTHER INFORMATION SEE OUR ANNUAL PERFORMANCE REPORT AT [DWRCYMRU.COM/AR2020-APR](http://DWRCYMRU.COM/AR2020-APR)

### HIGHLIGHTS:

- We have maintained our investment grade credit rating. Our credit ratings with the major agencies, Standard & Poor's, and Moody's, were downgraded, in line with the rest of the sector, following the challenging Final Determination from our regulator, Ofwat. Our ratings with the three main credit rating agencies have just been confirmed as very strong: A-/A3/A.

### CHALLENGES:

- Our operating costs for 2019-20 were £326 million (2018-19: £336 million). This reduction is mainly due to lower expenditure on weather-related events; we spent £16 million in 2018-19 as a direct result of the long, dry summer, while at the end of 2019-20 addressing the operational impacts of Storms Ciara and Dennis cost us some £4 million. Other significant movements include the circa £5 million impact of general inflation on our operating costs and a £4 million COVID-19-related increase to our bad debt charge, which have been offset by ongoing efficiency initiatives across the organisation including increased energy generation (£5 million) and the insourcing of activities (£2 million). We are continuing to monitor operating costs closely and are working to implement internal business review proposals across the business to save costs for AMP7.

**£47m**RETURN OF VALUE DISTRIBUTIONS  
ANNOUNCED IN JUNE 2019**60%**

CURRENT LEVEL OF GEARING

**23 days**

AVERAGE TIME TO PAY SUPPLIERS' INVOICES

| Actual Performance | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | FD target – 2019-20 |
|--------------------|---------|---------|---------|---------|---------|---------|---------------------|
| <b>Financing</b>   |         |         |         |         | ANeg/   |         |                     |
| <b>Efficiency</b>  | A/A3/A  | A/A3/A  | A/A2/A  | A/A2/A  | A2Neg/A | A-/A3/A | Investment Grade    |

**LARGEST CUSTOMER "DIVIDEND":**

In June 2019, we were able to confirm our largest customer "dividend" – our return-of-value investment – thanks to our not-for-shareholder business model. The £47 million investment covers a range of issues – including lead pipe replacement in customer properties, improvements to our water network, work to tackle sewer blockages, and investments to improve and open up access to our visitor centres. Since we adopted this model in 2001, we have returned over £440 million to customers either through lower bills, or accelerated investments to benefit the environment, health and wellbeing.

**CASE STUDY**

## LOOK FORWARD: 2020–2025

Many of the decisions we take today will have a major impact on our customers, the environment and the economy for years to come. After consulting our customers about their priorities, we have made eight key promises to our customers and colleagues and there are a total of 56 targets that we want to achieve by 2025 that will benefit our customers, communities and our environment.

### OUR TARGETS

Here we set out the most significant of the targets we want to achieve between 2020 and 2025 in key service areas, compared to current levels of performance. The following figures in brackets relate to the operational performance in the last financial or calendar year. Please see page 42 for further details. Where these targets are new measures for AMP7, the comparative figures shown for 2019–20 performance are provisional figures only, and have not been audited or verified.

At the time of publishing this Annual Report, the full impact of the COVID-19 pandemic is not yet clear. We consider it would be premature to try to amend our business plan for 2020–21 to anticipate the effects of COVID-19. However, we are already noting an impact on our ability to meet the following operational targets to some degree:

- Per capita consumption – it will be more difficult to influence reduced water usage especially in light of the public health focus on handwashing.
- Acceptability of water – increased demand has increased pressure in pipes in some areas which has exacerbated discolouration issues, and there has also been an increase in reported taste and odour issues.
- Other measures which will be impacted by social distancing – visitor numbers to our recreational facilities, education activities, and pipe repairs and replacement including the replacement of lead pipes at customer properties.
- Bad debt – we anticipate that more of our customers will struggle to pay their bills, and although we will aim to support them through our social tariffs and financial assistance schemes, it is still likely that the proportion of our customer debt that is deemed irrecoverable will increase. For business customers, we anticipate seeing an increase in void (unbilled) properties.

## 1

### CLEAN, SAFE WATER FOR ALL

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

By 2025 we will strive to:

- achieve upper quartile performance for water quality compliance according to the DWI's Compliance Risk Index (CRI) measure (2019–20: figure not yet available)
- reduce the average number of minutes that affected customers are without water during the year by at least 55% to eight minutes (average) per customer (2019–20: 17.78 minutes PR19 Measure)
- reduce the number of occasions on which customers contact us about the appearance, taste or odour of drinking water by 14.3% to 2.4 contacts per 1,000 population (2019–20: 2.8 contacts)
- reduce the number of tap water events according to the DWI's Event Risk Index measure, to no more than a 10,000 point ERI score (2019–20: figure not yet available)
- identify and replace 7,000 lead pipes across our supply area by March 2025 (new measure for AMP7)

## 2

### SAFEGUARD OUR ENVIRONMENT FOR FUTURE GENERATIONS

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

By 2025 we will aim to:

- improve wastewater treatment works compliance to 100% (2019–20: figure not yet available)
- reduce the number of times we cause pollution, due to failures at our works or problems with our sewers (excluding pollution incidents at water treatment works), by 17.9% to no more than 78 incidents per year (2019\*: 96 incidents from wastewater assets)
- further reduce leakage levels by 12% (from 168 million litres a day in 2019–20 to 148.3 million litres a day)
- improve energy self-sufficiency from 32% to 35% (measure of electricity generated and gas injected to the grid as a percentage of all electricity and gas consumed by the Company)
- increase the length of rivers improved to "good" ecological status by 418km (new measure for AMP7)

\*denotes calendar year measure

### 3

#### PERSONAL SERVICE THAT IS RIGHT FOR YOU

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

By 2025 we will strive to:

- achieve excellent customer service by maintaining at least upper quartile outcomes under Ofwat's C-MeX and D-MeX measures (new for AMP7)
- maintain our high scores for customer trust – target score for 2024–25 of 8.15 (2019–20: 8.20 score) (average score out of 10 for customers asked)
- maintain business customer satisfaction scores – target score for 2024–25 of at least 88% (2019–20: 89.54%)
- increase the number of vulnerable customers registered on our Priority Services Register to receive tailored services in the event of an operational incident from 4% (as at March 2020) to 7%

### 4

#### PUT THINGS RIGHT IF THEY GO WRONG

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

By 2025 we will aim to:

- maintain internal sewer flooding incidents at no more than 253 incidents per year (2019–20: 216)
- reduce external flooding incidents on customer properties to no more than 3,800 incidents per year (2019–20: 4,518)
- achieve upper quartile performance across the industry for total complaints (for 2019–20 this would have meant no more than 128 for the year)
- improve the service received by our "worst served" customers. These are customers who suffer from repeat problems with the services we provide, e.g. low water pressure or sewer flooding – 2025 targets are no more than 1,654 customers at risk for water and no more than 357 for wastewater. This objective is measured differently to the AMP6 measure reported in the Look Back section

### 5

#### FAIR BILLS FOR EVERYONE

Keeping bills as low as possible is fundamental to earning and maintaining the trust of our customers. Since becoming a not-for-shareholder company in 2001, our record on customer bills is the best in the sector, showing an 8% reduction relative to the Retail Prices Index (RPI) measure of inflation since 2000. We have kept the increase in the average household bill below RPI every year for a decade – the only water company in England and Wales to achieve this.

By 2025 we will target:

- maintaining changes in average bills to be below CPI(H) inflation every year
- increasing the numbers of customers struggling to pay their water bills who benefit from our social tariffs scheme to 148,000 (March 2020: 133,000)
- reducing Company level of bad debt to 2% of total revenue billed in year (2019–20: 2.9% provisional figure)
- reducing unbilled properties to 3.5% of all properties (new measure for AMP7)

# LOOK FORWARD 2020-25

## 6

### CREATE A BETTER FUTURE FOR ALL OUR COMMUNITIES

Welsh Water is dependent on a wide range of partnerships to provide a resilient and high-quality essential public service for the future. Examples include partnerships with universities (through Welsh Water 2050 and our resilience work), other utilities (to support vulnerable customers), farmers (on pesticide reduction), and environmental organisations (many of which sit on our Independent Environmental Advisory Panel). During 2015-20 we have also worked with our first Water Resilient Community partnerships in the Rhondda Fach and Rhyl.

By 2025 we will aim to:

- increase the numbers of children benefitting from our education centres and our outreach education provision to 75,000 (2019-20: 66,000)
- increase the number of visitors to our visitor centres to 830,000 per year (2019-20: 650,000)
- increase the number of customers signed up for our Welsh Language Scheme service to 25,000 (new measure for AMP7)

## 7

### RESILIENCE

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

By 2025 we will target:

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

## 8

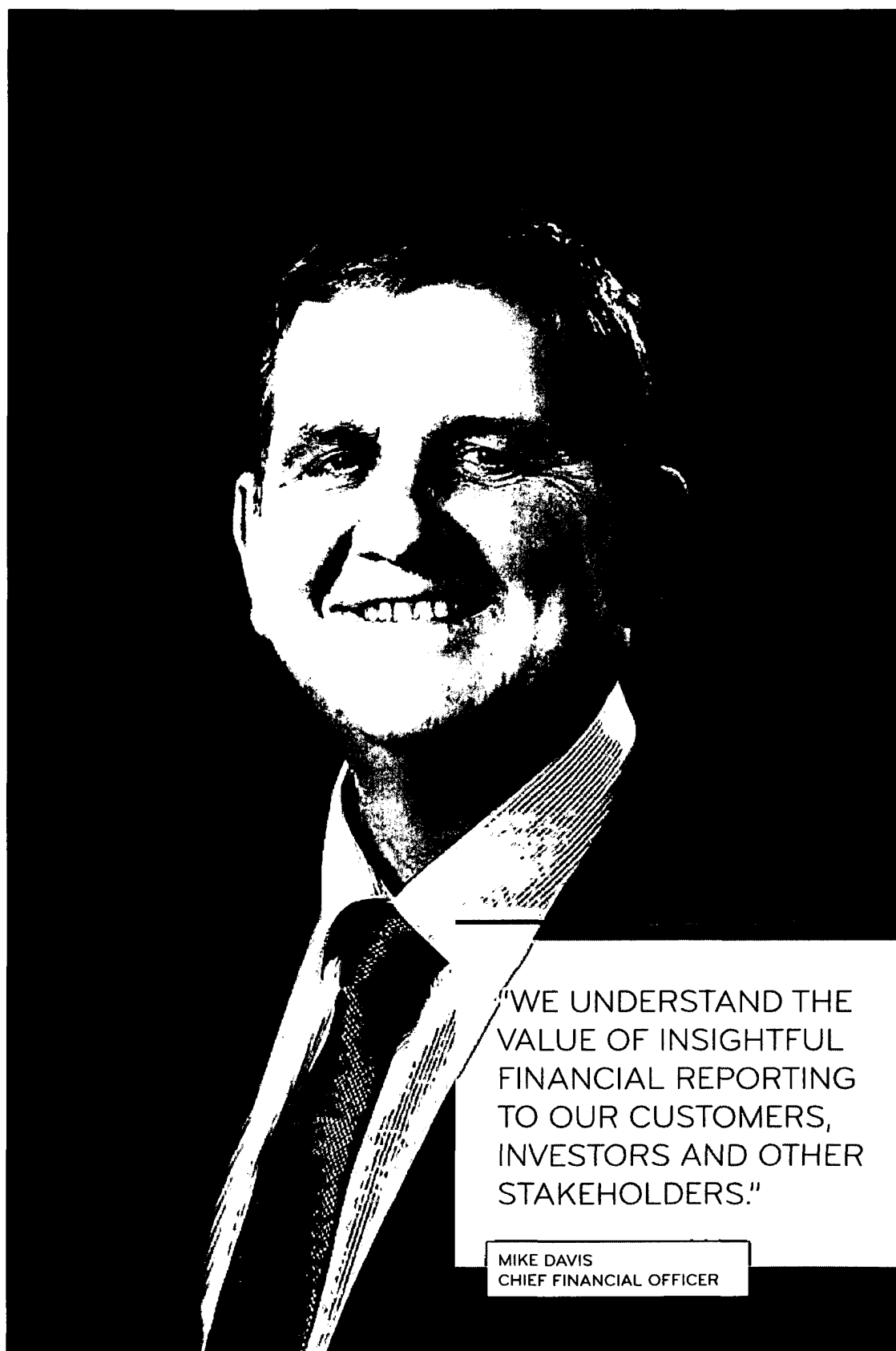
### DEVELOPING OUR PEOPLE

Our people are our most important assets. They have already faced huge challenges in the course of 2020 in responding to Storms Ciara, Dennis and Jorge, and the challenges of maintaining our services during the COVID-19 pandemic.

By 2025 we will work to:

- ensure at least 95% of all our colleagues trained to be fully competent for their role (2019-20: 83%)
- continuing our “Journey to Zero” by having no more than 5 RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) incidents every year (2019-20: 8)
- continue to achieve “best in class” engagement levels of 75-80% (measured by an independent annual survey of all colleagues by Engine Transformation)





"WE UNDERSTAND THE  
VALUE OF INSIGHTFUL  
FINANCIAL REPORTING  
TO OUR CUSTOMERS,  
INVESTORS AND OTHER  
STAKEHOLDERS."

MIKE DAVIS  
CHIEF FINANCIAL OFFICER

# FINANCIAL REVIEW

## REVENUE

Glas Cymru's turnover in the year to 31 March 2020 remained stable at £779 million (2019: £782 million). A price increase of 0.8% in line with Ofwat's PR14 Final Determination, along with the impacts of increased consumption resulting from a dry summer and new customers have been offset by reduced revenues due to a higher number of customers benefitting from subsidised tariffs.

## OPERATIONAL ITEMS

Glas Cymru incurred total operational costs (excluding exceptional items, infrastructure renewals expenditure on maintaining our underground pipe network and depreciation) of £326 million (2019: £336 million). This reduction is mainly due to lower expenditure on weather-related events; we spent £16 million in 2018-19 as a direct result of the long, dry summer, while at the end of 2019-20 addressing the operational impacts of Storms Ciara and Dennis cost us some £4 million. We estimate that the full impact of Storm Dennis, including expenditure incurred in 2020-21, will be around £18 million, although ongoing insurance claims will reduce the total cost to the business. Other significant movements include the circa £5 million impact of general inflation on our operating costs and a £4 million COVID-19-related increase to our bad debt charge, which have been offset by ongoing efficiency initiatives across the organisation including increased energy generation (£5 million) and the insourcing of activities (£2 million).

All water and sewerage companies use a lot of power for treatment and pumping

processes. The undulating topography across Wales makes this a particular challenge for us. Power costs during 2019-20 were £46 million (2019: £46 million).

There remains significant uncertainty over future energy costs, and we have forward purchased a proportion of the estimated power requirements of the business for the current AMP through to 2025.

Water and sewerage companies are not permitted to disconnect supplies to non-paying domestic customers and, as a result, cash collection will always be challenging. The high priority attached to debt recovery in the retail business has resulted in further collections improvements during the year. We are targeting customers who won't pay their bills, as opposed to those who can't pay, and the reduction comes principally from securing charging orders over property owned by customers, with over 7,000 orders secured over £12 million of our customers' debt as at 31st March 2020. We expect collections to be impacted adversely by the COVID-19 pandemic and have factored this into our year-end provision for overall bad debt charge, increasing the charge by £4 million to £25 million.

## EXCEPTIONAL ITEMS

In the year to 31 March 2020 we have recognised exceptional items totalling £10.5 million. These relate to restructuring costs during the next price control period 2020 to 2025 (AMP7) and comprise severance costs associated with headcount reduction and the cost of one-off payments to colleagues affected by changes to working patterns.

# £779m

ANNUAL TURNOVER 2019-20

# 0.8%

AVERAGE PRICE INCREASE

The restructuring is on a smaller scale to those we have announced at the beginning of previous regulatory periods, and is focused on delivering identified savings in specific areas of the business, as already communicated to those business areas. We have provided for severance costs totalling £8 million, which will be a key enabler of our plans to reduce headcount by around 200 FTEs during the period. There are firm plans in place, with most reductions expected to take place in 2020-21.

During 2019-20 we renegotiated a five-year Working Together Agreement with our recognised trade unions, effective from 1 April 2020, which included modifying certain colleagues' standard working hours and expected levels of overtime. As part of this, we committed to making one-off payments in 2020-21 to some 1,500 colleagues affected by this which will total some £2 million. In the light of the COVID-19 pandemic we have temporarily suspended the introduction of these changes; we currently expect that these will come into effect later in 2020-21, once the impact of COVID-19 has been better understood and managed, and we are able to achieve a smooth transition.

# FINANCIAL REVIEW

## FINANCING COSTS

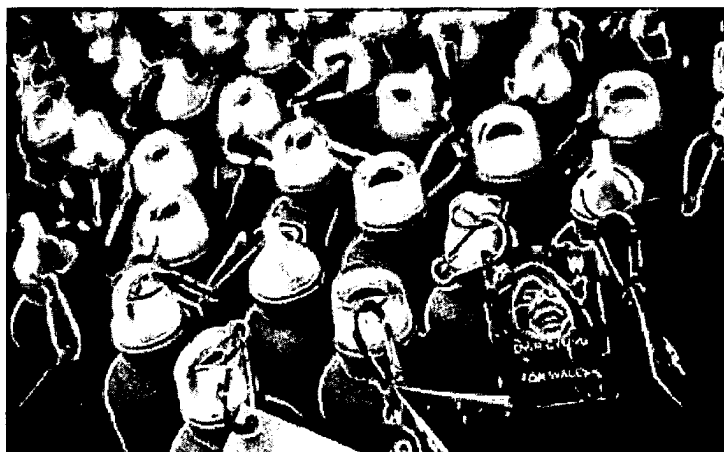
Net interest payable of £158 million (excluding accounting gains or losses on derivatives noted below) was £6 million lower than the previous year, primarily as a result of lower Retail Prices Index inflation.

Glas Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt which were entered into when the Company was highly geared. While these are effective commercial hedges, they do not qualify for hedge accounting under IFRS9. Changes in market values create volatility in the income statement and fair value losses in 2019–20 amounted to £48 million (2018–19: losses of £29 million). There is, however, no impact on cash flows: the Group intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such gains and losses will revert to zero.

Following Board approval on 30 January 2020 and investor roadshows held in early February 2020, on 17 February 2020 we successfully priced £200 million of subordinated (junior) bonds and £300 million of senior bonds at respective fixed rates of 1.625% and 1.375%. Formal issuance and cash drawdown took place on 24 February 2020.

In line with the Group's AMP7 financing plans, on 5 March 2020 we also entered into contracts to swap the new bond debt to RPI along with the existing £350 million of 2028 6% fixed rate bonds, reducing the level of cash interest payable during AMP7.

Operating profit has fallen from £69 million last year to £30 million: infrastructure renewals expenditure has increased in line with a higher level of capital investment, and depreciation is £23 million higher than the prior year principally due to the revaluation of fixed assets.



## TAXATION

The Group continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we pay to fund it have the effect of delaying corporation tax payments to future periods. A tax credit of £0.8 million has been generated from the surrender of tax losses relating to our investment in energy efficient capital expenditure under a Government-approved scheme. The Company has also claimed a tax credit of £1.3 million under the Government's Research & Development Expenditure Credit initiative, which has been included within operating expenditure in Note 3 to the financial statements.

The total tax credit in the income statement was £7.1 million (2019: £20.8 million credit). This includes a charge of £23.2 million as a result of deferred tax being calculated at 19% (2019: 17%) following the increase to the corporation tax rate announced in the 2020 Budget.

If this is excluded from the total tax credit then the effective rate for the year is 17.2% (2019: 16.8%). A reconciliation is provided in Note 5.

## LOSS BEFORE TAX

The consolidated income statement shows a loss before taxation of £176 million (2019: loss of £124 million) which takes into account the variances discussed above, including inflation and fair value movements.

## GROUP TAX STRATEGY

Full details of the Group's Tax Strategy are published annually on our website at [dwrcymru.com/AR2020-TaxStrategy](http://dwrcymru.com/AR2020-TaxStrategy)

## PENSION FUNDING

The statement of comprehensive income reports a defined benefit pension scheme actuarial loss of £1 million (2019: loss of £20 million) and the balance sheet liability as at 31 March 2020 was £87 million (2019: £96 million). This valuation is on an IAS19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme was completed as at 31 March 2019 and projected a deficit which has since been mitigated by recovery payments

totalling £12 million during the year ended 31 March 2020. Exposure to any significant additional future liabilities was mitigated by the closure of the majority of sections of the scheme with effect from 1 April 2017.

### NET ASSET POSITION

The consolidated balance sheet shows net assets of £1,144 million at 31 March 2020 (2019: £1,234 million). The net book value of property, plant and equipment has risen by £226m (4%), a consequence of revaluing the Group's asset base to Dŵr Cymru's regulatory capital value. Cash balances are £166m (33%) higher than the prior year, following the Group's 2020 bond issues and there has been a corresponding increase in borrowings (by 9%). The net deferred tax liability has increased by £47m (11%) principally as a result of the increase in the UK corporation tax rate (effective 1 April 2020) from 17% to 19%. Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £1,619 million (2019: assets of £1,660 million).

### GOING CONCERN

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2020 have been prepared on the going concern basis.

### DIVIDEND POLICY – APPOINTED BUSINESS (DŴR CYMRU CYFYNGEDIG)

In March 2016 the Glas Board approved a Dividend Policy to permit up to £100 million of funds to be paid intra-Group, outside the regulatory ringfence, in order to enable the funding of commercial projects. No dividends were declared or paid during the year ended 31 March 2020 (2019: none).

### RETURN OF VALUE “DIVIDEND” TO CUSTOMERS

Our corporate structure enables all surpluses to be applied for the benefit of customers. Since 2001, Glas Cymru has applied over £440 million in total for the benefit of customers. Return of Value in 2019–20 was set at £47 million in total. This ensured

that the gearing target could be maintained at just below 60% in 2020, to preserve a strong credit rating and financial resilience for the longer-term benefit of customers. It takes account of known and expected costs and also of the Group's pension funding position. For further information, please see page 28.

### CAPITAL INVESTMENT

Glas Cymru's strong financial position has been built up over the last 19 years, and provides a stable base from which it can respond positively to the challenges of economic uncertainty and drive forward its continuing large capital programme. Glas Cymru works with an alliance of contracting partners to deliver the capital investment programme at the best value for money for customers. Total net capital expenditure during the year (including infrastructure renewals expenditure) was £456 million (2019: £452 million).

### CREDIT RATING AND INTEREST RATE MANAGEMENT

Glas Cymru has the strongest credit ratings in the UK water sector, reflecting the Group's high level of creditworthiness. All three credit rating agencies have issued rating updates following Ofwat's publication in December 2019 of the challenging Final Determination for the AMP7 price control. On 30 January 2020, Fitch confirmed the rating of our bonds as A and amended the outlook from negative to stable; on 7 February 2020, Moody's announced that they were downgrading our corporate family rating and class B senior secured debt from A2 to A3 (with stable outlook); and also on 7th February 2020, S&P downgraded the class B senior secured debt from



## FINANCIAL REVIEW

A to A- and revised the outlook to stable. The class A bonds (which are subject to a financial guarantee from Assured Guaranty (Europe) plc) are unaffected by these actions, which are in line with our expectations and do not materially affect our overall credit quality.

As at 31 March 2020, around 70% of gross debt was index-linked via bonds and derivatives (2019: 60%), with the remainder at fixed interest rates. The expected maturity of the outstanding fixed-rate and index-linked bonds ranges from 2021 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

### GEARING POLICY

Glas Cymru's gearing to Regulatory Capital Value (RCV) policy is to target gearing at or around 60% and interest cover ratios commensurate with maintaining our sector leading "A"

grade credit ratings. This should help us to maintain our low-risk profile giving the Group access to low-cost financing throughout AMP7 and beyond.

### LIQUIDITY AND FINANCIAL RESERVES

Glas Cymru aims to offer a secure, low-risk investment to debt investors. By building and maintaining a strong financial position, we intend to keep our borrowing costs low, enabling us to finance future investment efficiently. On Glas Cymru's acquisition of Welsh Water in May 2001, gearing (net debt/RCV) stood at 93%. Since then, the financial position has improved steadily. Gearing to RCV had fallen to 59.5% by 31 March 2020 (2019: 58.5%) and "customer reserves" (RCV less net debt) were £2.4 billion (2019: £2.4 billion). As at 31 March 2020, the Group had available total liquidity of £837 million, including cash balances of £667 million.

### EVENTS AFTER THE FINANCIAL YEAR END

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak to be a pandemic and the virus has continued to spread throughout the UK after 31 March 2020.

We have taken into account the estimated impact of the pandemic on the valuation of the Group's balance sheet as at 31 March 2020 and discuss the impact on our operations and performance on page 40. We have set out in our long-term viability statement on page 78 the estimated impact on our financial forecasts.

*PM Davis*

**Mike Davis**  
Chief Financial Officer

5 June 2020

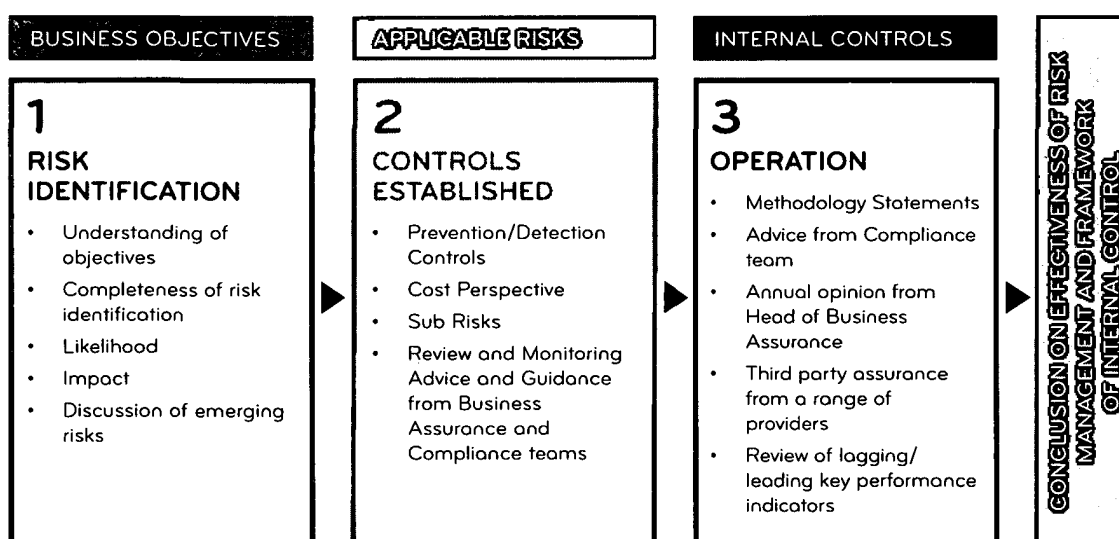




# OUR APPROACH TO RISK MANAGEMENT

Our risk management framework supports our commitment to earn the trust of our customers every day through delivering excellent customer service at the lowest sustainable cost. The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management, and considers risk appetite and progress to target for identified strategic risks in detail every six months, with interim updates at every Board meeting. These processes involve all areas of the business to identify risks, including new and emerging areas of concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly.

## ASSESSING EFFECTIVENESS OF RISK MANAGEMENT AND CONTROLS



The long-term success of the Group depends on identifying, assessing and managing risks effectively. All colleagues play a part in risk management. Our framework of internal control is designed to identify, evaluate and manage risks affecting the business. This is supported by a "Three Lines of Defence" model, which manages and assesses key controls and adherence to a suite of processes, policies and management systems.

- **First line of defence** owns and manages risks. This is fulfilled by operational teams and managers. A wide range of potential events including legal, regulatory, core operations, customer service and hazard risks are reviewed.
- **Second line of defence** is risk management and risk control. This is fulfilled by our Compliance team and internal committees.
- **Third line of defence** is independent review and oversight. This is fulfilled by Internal and External Auditors, including our technical adviser on regulatory reporting issues (Jacobs Engineering Group – our Reporter).

Until 2019, Ofwat also assessed risk management in the Company Monitoring Framework. In 2019, the last year that Ofwat made this assessment, we were awarded the highest grading of "self assurance" for company monitoring, which included a review of our Risk and Compliance Statement and Long-Term Viability Statement. As regards the Risk and Compliance statement, we were one of three companies to be assessed as "Exceeds Expectations". Ofwat concluded that: "Dŵr Cymru demonstrated behaviours that met our expectations by a clear margin in most assessment areas and exceeded our expectations, demonstrating leading-edge behaviour in two areas, the risk and compliance statement and the assurance plan".



### FIRST LINE

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

### SECOND LINE

- Risks are discussed during a "top down" discussion of risk every month at a meeting of the Executive team (through the dashboard process and Board reports). The Executive team reflects key changes in risks within a strategic risk register and ensures each risk has an owner.
- Executive team members are responsible for confirming that they have adequately discussed, reviewed and escalated risk (where necessary) as part of their quarterly business plan update to Executive team meetings.
- Risks are considered, where appropriate, within the terms of reference of various operational groups and committees, for example the Health and Safety Steering Group, Information Security Steering Group, and within the Capital Alliance Framework. This is supported by other compliance-focused teams within the business, including the Quality Policy and Compliance team, which reports directly into the Legal and Compliance Director, and the Integrated Management Systems certification team.

- The Compliance team monitor that all risk registers are updated quarterly and report this to a Senior Manager where this is not happening.

### THIRD LINE

- The Audit Committee of the Board oversees the risk management processes and procedures and reports this back to the Board. It is focused on identifying and resolving control issues.
- The External Auditors review our regulatory reporting information to Ofwat in the Annual Performance Report.
- Our Business Assurance function conducts audits of the systems of internal control, which consider the adequacy and effectiveness of risk management, compliance and control activities. The Audit Committee monitors the issues identified and resolved.
- Our External Auditors and our Reporter review our approach to risk and request evidence of risk review in the business.
- The Executive team's overview of strategic risks affecting the business is reviewed at every Board Meeting. The Board carries out an in-depth review of strategic risks and an assessment of current and target risk appetite twice a year.
- During March 2020 the Executive team reviewed the strategic risks which would be subject to regular reporting in AMP7 and discussed emerging risks.
- This bottom up and top down approach to risk management provides assurance that risks are being effectively managed by the business and identifies those areas where further mitigation steps are needed.

# KEY RISKS FACED BY THE GROUP

The analysis below focuses on those risks that would threaten the Company's future performance, solvency or liquidity. The risks are not ranked in order of significance or severity.

| KEY RISK AND SEVERITY                   | POTENTIAL IMPACT                                                                                                                                                                                                                                                                                                  | MITIGATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | CHANGES OVER THE PERIOD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | TREND RELATIVE TO LAST YEAR |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| <b>Health and safety major incident</b> | The health and safety of our employees and the public in the provision of our services and on our sites is our utmost priority. Risks include the potential for an accident or death to a member of the public, on one of our sites or as a result of our actions, or to an employee in discharging their duties. | <p>The Board provides oversight of our Health and Safety Strategy, with reporting on H&amp;S issues at every Board meeting and detailed reviews of lead indicators reviewed at the Quality and Environment Committee meetings. The Health and Safety Steering Group includes Trade Union liaison and formulates an annual H&amp;S plan – including a review of identified "Top 10" risks for further mitigation.</p> <p>We ensure that our health and safety policies are clear and regularly reviewed, with a clear line of responsibility with the Managing Director (from 1 April 2020, Chief Executive Officer) as the responsible Board Director to whom the Director of Health and Safety reports directly. The HSE/ Institute of Directors "Leading H&amp;S" guidance is used as the directing framework. There is a visible leadership focus provided by the Executive team through "Safety Days" and promotion of "safety conversations" at all levels of the business.</p> <p>We follow industry best practice and regularly review our training schedules.</p> <p>There are regular communications across the business on H&amp;S issues – for example at every team meeting, at employee roadshows and at the annual health and safety conference.</p> | <p>Numbers of reportable injuries and performance against other key measures for 2020 are similar to 2019.</p> <p>We presented our AMP7 Health and Safety Strategy to Board in March 2020.</p> <p>This year we have retained the RoSPA Gold Award for Safety and were awarded the Welsh Government's Platinum Occupational Health Award.</p> <p>In July 2019, every member of the Board attended a full day of NEBOSH training on Health and Safety Leadership Excellence. As a new Non-Executive Director, separate arrangements are being made for Debra Bowen Rees to attend this training.</p> | ◀▶                          |

Risk trend: ▲ Increased risk ▼ Decreased risk ◀▶ No change

Risk impact: ○ Low ● Medium ● High

| KEY RISK AND SEVERITY               | POTENTIAL IMPACT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | MITIGATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | CHANGES OVER THE PERIOD                                                                                                                                                                                                                                                                                                                                                                                                                                                             | TREND RELATIVE TO LAST YEAR |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| <b>Major public health incident</b> | A sustained problem with drinking water quality would require a widespread boil water notice and could lead to a significant impact on customer trust and regulatory action. This could be caused by asset failure, an unanticipated catchment risk, or deliberate sabotage.                                                                                                                                                                                                                             | <p>We closely follow the approach set out in our Drinking Water Safety Plans to achieve good levels of compliance with key drinking water regulations. We have ISO accredited operating procedures and related audit processes focused on this issue.</p> <p>We are improving the quality of water in our water networks with our "Zonal Studies" water mains refurbishment and replacement programme.</p> <p>We work closely through the Water Health Partnership with Environmental Health Authorities and Public Health Wales, to identify best practice and to manage current issues.</p>                                                                                                                                                                                                                                                                                                                                  | The Board reviewed the assessment of this risk as a result of a deterioration in Mean Zonal Compliance performance over the year and a taste and odour incident at our Preseli Water Treatment Works in September 2019. The current COVID-19 situation has involved us working very closely with Public Health Wales and the DWI to manage risks to water quality.                                                                                                                  | ▼                           |
| <b>Major supply failure</b>         | <p>Failure of a dam, treatment works or strategic network flooding with a risk to life. Less serious (but still very significant) potential failure of a works with a potential loss of supply for thousands of customers.</p> <p>The impact of climate change and the increased strain on our assets is increasing the challenge and costs exposure in this area. Our experiences with unprecedented weather conditions during the past year has demonstrated the potential impact on our services.</p> | <p>We work to well-documented operational strategies in the clean and wastewater businesses, including an operational technology cyber risk mitigation programme. Our Dam Safety Programme includes regular statutory inspections and additional inspections by expert engineers, an Annual Compliance Report addressed to the Board and key underpinning strategies such as "Portfolio Risk Assessment" of dams, which supports our Pipes in Dams capital investment programme.</p> <p>We have targeted our AMP6 capital investment to improve resilience at key assets (for example, the £31 million replacement of the Bryn Cowlyd, Dolgarrog water treatment works).</p> <p>We have well-developed programmes to ensure Critical National Infrastructure (CNI) and Security and Emergency Measures Directive (SEMD) compliance.</p> <p>We undertake an annual testing programme for our Emergency Planning Procedures.</p> | Issues identified during regular assessments of dams under our statutory inspection programme are being addressed with programmes of work – recent emerging issues at Llest Wen, Talybont and Upper Carno dams have all had engineering assessments, identifying immediate and longer-term mitigation proposals. We are also reviewing the recommendations from the investigation of the incident at Toddbrook dam in England in 2019, with a view to further improving resilience. | ◀▶                          |

# KEY RISKS FACED BY THE GROUP

| KEY RISK AND SEVERITY                                  | POTENTIAL IMPACT                                                                                                                                                                                                                                                                                                   | MITIGATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | CHANGES OVER THE PERIOD                                                                                                                                                                                                                                                                                                                                                                                                                                                       | TREND RELATIVE TO LAST YEAR |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| <b>Loss of key talent, capability and competence</b>   | A skills shortage in some areas and increased investment in industries where we compete for labour present an emerging risk to our ability to attract and retain employees with the skills and competence we require. We also face the risk that key individuals could be targeted for recruitment by competitors. | <p>We carry out an annual Talent and Resource Review which includes a review of succession planning, career discussions during performance reviews, promoting training opportunities for colleagues and ensuring development plans are in place.</p> <p>We are investing in skills development, competency training, customer service and leadership training.</p> <p>We are working to define clearer career paths through the business for colleagues in our contact centre and we are focused on supporting every individual within the business to reach their full potential.</p>                                                                                                 | <p>We carried out successful summer recruitment campaigns for apprentices and graduates and we have enhanced our succession planning process for key roles across our business.</p> <p>IR35 Regulations, due to come into effect in April 2020, have been delayed; however, we anticipate that a small number of contractors may choose to cease working for us once these regulations come into force.</p>                                                                   | ◀▶                          |
| <b>Information and Communications Technology (ICT)</b> | A major loss of ICT service puts business performance at risk, while several business improvement plans are reliant on new ICT systems.                                                                                                                                                                            | <p>The Board Technology Committee maintains oversight of digital risk and opportunity in the business and ensures increased awareness at Board level.</p> <p>We are actively managing the external cyber security threats that remain a significant element of this risk, including maintaining our Cyber Essentials accreditation and requiring this of our key suppliers.</p> <p>The Information Security Steering Group, which comprises individuals drawn from across the business, as well as information technology, operational technology, and information security specialists, continues to monitor developments in and raise awareness of these issues in the business.</p> | Our Business Information Systems team has delivered several key projects either on, or ahead of, schedule to enable our response to the current COVID-19 situation. We have needed to balance the practical needs of the business to be able to operate in the current situation against resulting information security risks and the preservation of customer and employee data protection. This has involved working closely with our key IT suppliers to manage this risk. | ▲                           |

Risk trend: ▲ Increased risk ▼ Decreased risk ◀▶ No change

Risk impact: ○ Low ● Medium ● High

| KEY RISK AND SEVERITY                    | POTENTIAL IMPACT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | MITIGATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | CHANGES OVER THE PERIOD                                                                                                                                                                                                                                                                                                 | TREND RELATIVE TO LAST YEAR |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| Macroeconomic risk and access to funding | <p>This risk combines two separate issues:</p> <ul style="list-style-type: none"> <li>The general economic environment, and the credit rating of the Glas Group, raising new debt from banks and bonds more expensive (than the price control allowed cost of debt), or more difficult (with cashflow consequences).</li> <li>The risk that our customers will be less able to pay their bills following the COVID-19 pandemic and its after-effects, increasing bad debt and the financial pressure on the business.</li> </ul> | <p>We have mitigated this risk by:</p> <ul style="list-style-type: none"> <li>Maintaining best in sector credit ratings so that we are always the lowest-risk investment in the sector.</li> <li>Our bond issue in February 2020 refinanced expensive debt borne by the business and has ensured we are in a strong cashflow-positive position during the current COVID-19 situation.</li> <li>Working with our customers who struggle to pay their water bills and increasing the number who benefit from social tariffs or other financial assistance.</li> </ul> | <p>The extent of the likely recession once we emerge from the current situation is unclear, but we are conscious that this risk is far higher than in recent years. While the Group's financial position is strong we are not at all complacent about the challenges ahead for the remainder of 2020-21 and beyond.</p> | ▲                           |
| Uncertainty following Brexit             | <p>Political and financial market volatility following the UK's decision to leave the EU, or potential supply chain issues (especially involving water treatment chemicals) in the event of a "no deal" Brexit.</p>                                                                                                                                                                                                                                                                                                              | <p>We have worked with the rest of the sector to put in place contingency planning for essential supplies.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Strong mitigation plans are in place to deal with the potential practical impacts of a "no deal" scenario. However, this will likely be overshadowed in any event by the wider macroeconomic effects of COVID-19.</p>                                                                                                | ◀▶                          |

## KEY RISKS FACED BY THE GROUP

| KEY RISK AND SEVERITY                                     | POTENTIAL IMPACT                                                                                                                                                                                                                                                                                                        | MITIGATION                                                                                                                                                                                                                                                                                                                                                                                    | CHANGES OVER THE PERIOD                                                                                                                                                                                                                                                                                                                                           | TREND RELATIVE TO LAST YEAR                                                         |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Failure to earn the trust and confidence of our customers | Failure to earn the trust and confidence of our customers leading to failure to achieve our corporate objective, reputational damage, increased customer service costs, damage to regulatory/government relationships, loss of employee morale. This risk is inextricably linked to many of the other risks identified. | <p>We strive for continuous improvement in our services to "earn the trust of our customers every day" and this focus on doing the right thing for our customers underpins our whole approach to service and everything we do.</p> <p>We also regularly measure customer trust – in 2019–20 the percentage of customers surveyed who said that they trusted us increased from 85% to 87%.</p> | <p>While trust continues to be high and the recent impact of Storm Dennis resulted in positive customer and stakeholder reaction, there is significant media and stakeholder interest in the causes of, and the factors contributing to, the flooding. Wider social unrest following the COVID-19 pandemic may adversely affect public trust in corporations.</p> |  |

Risk trend: ▲ Increased risk ▼ Decreased risk ◀▶ No change

Risk impact: ○ Low ● Medium ● High

## EMERGING RISKS FACED BY THE GROUP

The Board monitors emerging risks and has particularly focused in the early part of 2020 on those risks which could affect the Company's ability to achieve its 2020–25 business plan or longer-term strategic goals. The current status of these identified risks is set out below, and our reporting framework for risk monitoring throughout AMP7 includes regular reviews of emerging risks, including "black swan" events that might adversely affect our ability to continue to provide essential services to our customers:

| RISK                                                     | DETAIL                                                                                                                                                                                                                                                                | MITIGATION                                                                                                                                                                                                                                                                                                                                             | TREND |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <b>Occupational health issues</b>                        | The use of chemicals in treatment processes, and the presence of man-made chemicals e.g. pharmaceuticals; as well as pathogens and specific gases produced during wastewater treatment could pose long-term health and safety risks to employees at wastewater sites. | We are using continuous monitoring to assess the risks from these practices, and engineering processes (ventilation, containment, extraction systems) to limit exposure. We are following international research and best practice guidance in relation to workforce exposure to chemicals.                                                            | ◀▶    |
| <b>Public health (micropollutants in drinking water)</b> | The risk of greater public concern around micropollutants – chemicals and micro plastics – in drinking water.                                                                                                                                                         | We are closely following developments in environmental regulation and we are supporting research by UKWIR and others to understand the potential risks better. Our focus on catchment management will help to reduce the use of chemicals in drinking water in the longer term.                                                                        | △     |
| <b>Public concern about environmental issues</b>         | The risk of greater public and investor concern around the Company's impact on the environment, including the impact of pollution incidents, and the possible presence of microplastics in wastewater and sludge.                                                     | We are investing £806 million in wastewater assets over AMP7 (2020–25) and listening to the concerns of NGOs and others via our Independent Environmental Advisory Panel (IEAP). Our media campaign to "Stop the Block" – for customers to help us avoid blockages in sewers to reduce the number of pollution incidents – will continue through AMP7. | △     |

### SIGNIFICANT DISPUTES WITH THE POTENTIAL TO IMPACT THE COMPANY

#### INFRACTION PROCEEDINGS IN RELATION TO THE LOUGHOR ESTUARY:

In March 2014, the UK Government was informed of an impending infraction case alleging breaches of the Urban Wastewater Treatment Directive around the UK, including areas of the Loughor Estuary, Gowerton and Llanelli catchments. There is an ongoing programme of investment in the area, in particular with regard to sustainable urban drainage systems, which has been welcomed by the European Commission and which will be completed by the end of 2020. Despite this ongoing investment, in May 2017, the Court of Justice of the European Union issued its judgment in the proceedings against the UK in respect of multiple sites, including Llanelli and Gowerton, which found that the UK had failed to comply with the Directive by the required date of September 2014. It is not yet clear whether the programme of investment will be acceptable to the Commission. During 2019–20, we have continued to provide updates to the Commission on the progress of the investment, which is still expected to have been completed by December 2020, although there have been some delays to the capital programme at Burry Port as a result of the restrictions relating to the current COVID-19 pandemic.

#### CLAIMS UNDER THE ENVIRONMENTAL INFORMATION REGULATIONS 2004 (EIR):

Since 2016, the Company has received notice of alleged claims from various groups comprising individuals and entities operating personal search businesses. The claims are for the repayment of charges received for drainage and water searches carried out since 2004, on the basis that they were allegedly levied contrary to the EIR. In April 2020, court claims were served on the Company by some of the claimants, seeking the repayment of charges and injunctive relief. The Company is defending those claims. The collective, indicative, quantum notified to date is £5.4 million, though the value of claims in the court proceedings, is currently unquantified.

# LONG-TERM VIABILITY STATEMENT

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

**As a water and sewerage provider we have made a long-term commitment to our customers to provide high-quality and reliable services at the lowest possible cost. A key requirement to ensuring that we can deliver on this commitment is to safeguard our ongoing financial resilience for the years to come.**

As set out on page 98 we have prepared this Annual Report as though we are a listed company, and in preparing this statement we have complied with Provision 31 of the UK Corporate Governance Code. We have also followed Ofwat's guidance in relation to preparing a statement on long-term financial viability (IN 19/07).

The nature of our business and our unique structure means that we are better placed than many other organisations to withstand financial shocks. Firstly, we are a monopoly supplier of an essential public service and demand for our water and sewerage services is not subject to the same scale of variation in customer demand as most other businesses. Secondly, we are a regulated business. Whilst the primary aim of regulation in the water sector is to protect customers from monopoly abuse, it also provides protections to safeguard the essential services. Thirdly, we have no shareholders – our focus on financial resilience is not compromised by shareholder demands for higher returns.

Our unique business model means that we are directly answerable to our customers for the decisions we make and all value we generate is returned to them, yet we have no ability to approach customers for assistance in the case of financial distress in the way that a traditionally-owned company could approach its shareholders.

We are therefore wholly debt-financed and raising debt at a low cost is a key part of our financial strategy, making it essential that we retain access to financial markets.

Our strategy since Glas Cymru acquired the business of Welsh Water in 2001 has been to reduce our gearing to the level at which the Board considers we would be able to obtain access to the most efficient level of debt funding. Over the past 19 years we have gradually reduced gearing from 93% to 60%, in line with the Board's target; consequently we have a high level of financial reserves (£2.4 billion) and strong credit quality.

## OUR APPROACH

We are the custodian of a long-term business and long-term viability is built into every aspect of our risk management and business planning processes, supported by a culture of open and honest challenge and mutual support that is endemic in the organisation and reinforced by clear direction from our leadership team. We ensure the continued robustness of our risk management controls and financial forecasting through regular Board challenge of our risk identification and assessment and our forecasting assumptions.

We have reviewed our assessment of the most appropriate period over which to assess our ongoing financial viability and have had particular regard to the level of certainty afforded by the five-yearly regulatory price reviews. On 16 December 2019 we received Ofwat's Final Determination of price limits for AMP7, giving us clarity of allowed revenues until March 2025 and we have developed detailed cost plans for that period; we have also developed outline plans for the following period (AMP8) to 2030 in the context of our strategic

planning document "Welsh Water 2050". We consider that forecasts beyond 2030 (AMP9), where allowed revenues will be the result of a further regulatory price review, are currently too speculative to allow us to draw reasonable viability conclusions. As a result, this viability statement covers a period of 10 years and the Board has considered the financial viability of the Group over the next two regulatory periods, to 31 March 2030.

Our Strategic Report sets out our principal risks and uncertainties and how we intend to mitigate their potential impact on the delivery of our strategic objectives (see pages 72 to 77). The largest emerging risk during 2019–20 is the COVID-19 pandemic, the full impact of which is still uncertain and will present us with challenges throughout 2020–21 and potentially beyond (see "COVID-19 pandemic", below). Our risk identification and assessment processes are ongoing, with departmental risk registers subject to frequent review and update; these feed a central register that is reviewed by the Executive team on a monthly basis and key items are discussed regularly at Board level, with feedback provided to all parts of the organisation. We recognise that risk is a necessary part of business and our appetite is to maintain it at a low level; our processes are therefore designed to monitor inherent and existing risks and to capture emerging risks at the earliest level. We build our assessment of risks into our annual five-year detailed budgeting process, and at a broader level on a five-to-ten year horizon.

The Board remains focused on achieving our long-term objectives and carries out an annual review of the strength and effectiveness of our risk management framework based on a review of the processes, outputs and

feedback from all areas of the business, as well as challenging the underlying assumptions and impact of mitigating activities. As part of its approval of the annual business plan, the Board discusses the likelihood of our principal risks arising and the impact on our forecasts, which in the case of our latest financial plan (the 2020 plan) principally cover the period to the end of AMP7 in March 2025 – although our financial forecasts stretch to 2030. Our 2020 plan is based on our final business plan submission to Ofwat in August 2019, modified in response to Ofwat's Final Determination.

Our viability assessment is based on exposing our forecasts to 2030 to a number of negative "stress" scenarios, which include the Board's view of the likelihood and impact of each of our principal risks and uncertainties occurring, both individually and in aggregate. We have also adjusted our core inflation assumptions to run these scenarios in both high (5% RPI) and low (0% RPI) inflationary environments, as well as reviewing the impact of other hypothetical financial stresses including AMP7 revenue reductions (10%) and total expenditure (totex) overspends (10%). The estimated financial impacts are based on a combination of our own experience and other publicly available data, both industry-specific and UK-wide.

We have chosen what we consider to be the most severe, yet ultimately plausible, negative scenarios as a means of gauging the overall level of headroom that exists in what we believe is a challenging yet deliverable plan; in turn this gives the Board confidence in the validity of its conclusions on long-term viability. We know that some of our combined scenarios are unlikely to occur in practice, however they

are useful in determining the overall level of resilience and to understand what would need to happen to threaten the Group's continued existence.

The use of stress testing allows us to forecast the impact of any given scenario on the covenants attaching to our existing funding (interest cover and gearing) as well as to the principal financial metrics used by rating agencies in assessing our credit ratings (adjusted interest cover and the ratio of funds from operations to net debt); for all scenarios we can then assess our future compliance with current obligations as well as our likely ability to obtain new debt.

The Board has reviewed the outputs of all stress scenarios being overlaid on the 2020 plan and has noted that none of these presents an overwhelming threat to the long-term viability of the Group. The combination of low gearing and a high level of liquidity mean that the Group is well-placed to absorb even large cost shocks while retaining access to funding markets. We are sheltered from the full impact of inflation movements as all of our allowed revenues and around two-thirds of our debt are index-linked (broadly speaking, we benefit financially from a high inflation environment and come under pressure when inflation is low). Importantly, even in our most stretching scenario, which assumes that all of the principal risks crystallise during a 10-year period of zero inflation, our forecasts indicate that we would not hit our 85% gearing level trigger with our existing lenders; this is not a realistic scenario for planning purposes but it helps us to understand the level of future resilience inherent in our current financial position.

## COVID-19 PANDEMIC

The biggest factor currently impacting on our viability assessment is the coronavirus pandemic. As part of the UK Government's ongoing assessment of the situation, the Office for Budget Responsibility (OBR) published a coronavirus analysis and reference scenario on 14 April 2020, predicting a large but temporary shock to the economy and public finances. Public borrowings and unemployment are expected to rise throughout 2020 with a gradual return to pre-COVID-19 budgeted levels by 2022. The OBR scenario assumes a three-month lockdown and a further three months with partial lifting of restrictions; however, the impact will depend upon the actual timing of these measures.

On 7th May 2020 the Bank of England (BoE) published its Monetary Policy Report and Interim Financial Stability Report assessing the UK economy and financial system's resilience to the impact of COVID-19. The BoE, like the OBR, recognises the reduction in jobs and income caused by COVID-19 and responds by keeping interest rates low to support households and businesses, and by helping banks to expand lending.

Our own COVID-19 impact modelling has been informed by these reports as well as by a more focused exercise commissioned by Water UK, specific to the water industry in England and Wales, which envisages two key scenarios:

1) Shortened peak: following an initial peak in April 2020, successful implementation of non-pharmaceutical interventions (NPIs) including testing, contact tracing, quarantine of cases and social distancing dampen the spread until a vaccine is available in 12 to 18 months' time. Antibody testing may enable a proportion

# LONG-TERM VIABILITY STATEMENT

of the population with immunity to return to the workforce. In this scenario, the estimated impact on the economy is a 4% drop in 2020–21 GDP, with unemployment peaking at 7% during 2020–21 and a period of some 18 months for the economy to recover.

2) Longer peak: weaker adoption of NPIs leads to a more prolonged peak in cases over summer 2020 (May to June). Variability in the success of the implementation of NPIs leads to ongoing but smaller peaks in the disease until the development of a vaccine in 12 to 18 months' time. In this scenario, the estimated impact on the economy is an 8% drop in 2020–21 GDP, with unemployment peaking at 8% during 2020–21 and a period of some two and half years for the economy to recover.

The biggest risks to revenues are in 2020–21: a decrease in non-household demand during lockdown and subsequent ongoing social distancing restrictions could have an adverse revenue impact of between £9 million (5% of non-household revenues) and £14 million (8%). However, this would be offset by increases in household revenues of £7 to £10 million and the net impact on revenues would be relatively small. The most difficult to risk to quantify is the impact of business failures i.e. those organisations which may not restart after lockdown is lifted. We have assumed a wide range of between 4,000 businesses (10% of closed businesses) and 18,000 (45%). This could result in a revenue loss of between £5 million and £17 million.

We expect to incur cash costs of around £5 million (predominantly PPE) during 2020–21, and have assumed that there will be some ongoing costs in future years of some £3 million per annum.

Our cost base will also be impacted by a higher level of bad and doubtful debts: by examining historical data, we have established a correlation between our bad debt charge and levels of unemployment, albeit there has been a two-year lag between changes in unemployment levels and their impact on the charge. We have prudently assumed that, in light of the scale of the expected increase in unemployment in this recession, increases in unemployment will have an immediate impact on cash collection and the bad debt charge. The OBR estimates that unemployment rate will rise from 3.8% in 2019–20 to 7.3% in 2020–21, fall to 6.0% in 2021–22 and fall further to 4.5% in 2022–23. Our scenarios assume that these forecasts could be 1% lower or 2% higher. We therefore estimate that in the most severe downside scenario the bad debt charge in 2020–21 could be as high as £39 million compared our 2020 plan forecast of £19 million, as high as £34 million in 2021–22 (2020 plan: £18 million) and as high as £28 million in 2022–23 (2020 plan: £17 million).

In either of these scenarios we would experience a significant drop in revenues and an increase in costs, with high levels of unemployment being likely to impact on our collections performance over the next 12 to 24 months; we are nevertheless well-placed to absorb the impact of these financial stresses and will retain our strong liquidity position.

It is also important to note that revenue lost in 2020–21 will be recoverable under regulatory mechanisms in 2022–23.

Reduced cash flows would impact on our key financial metrics, in particular interest cover ratios. However, in the most severe downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in our borrowing covenants; and while the reduced cash flows weaken our financial metrics, they remain within rating agencies' guidance for our current ratings.

## OUTLOOK

The Board's overall assessment of long-term viability takes into account its assessment of the financial risk management framework and the forecast impacts of all stress testing, and it considers that these are appropriate and do not generate any sign of significant threats to the Group's viability over the next 10 years.

We expect COVID-19 to have a material adverse impact on our cash flows during 2020–21 and it is likely that a related economic recession will continue to impact on our cash flows for several years. However, the Board also has regard to the Group's strong financial position, with gearing in line with its target of 60% and strong liquidity. Our current liquidity position is very strong with cash on deposit and loan facilities totalling £837 million, a large amount resulting from a £500 million bond issue in February 2020. Some £670 million of cash is held on short-term deposits (35 days maximum) giving us easy access to a high level of liquidity.

The water sector is historically stable with a supportive regulator (Ofwat has a statutory duty to secure that efficient water companies can finance the proper carrying out of their functions), five-year price reviews mean that our cash flows are generally predictable and investor confidence remains high. We expect that our low gearing would help us to retain access to funding if any of the stress scenarios were to arise; we have relatively small refinancing needs after April 2021 (some £200 million in 2023–24 and 2024–25) and as bond markets currently remain active we do not currently envisage any funding risk. We currently expect that any changes to the regulatory environment and our overall level of risk will have no material impact on our ability to access financial markets.

## COMMERCIAL BUSINESS

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

## ASSURANCE

Assurance is a fundamental part of our business planning process, with peer reviews and executive team approval forming key milestones prior to Board review. A key part of the peer review process ensures that our financial forecasts are aligned with our operational delivery plans. All plans must receive head of department and Executive team approval prior to Board sign-off.

We have received external assurance on our financing model used to generate the 2020 plan and stress scenarios via an "agreed-upon procedures" exercise, with no exceptions noted, and our plan itself has been subject to scrutiny and challenge by Ofwat (being a modified form of our PR19 final business plan submission).

Our independent external auditors review this long-term viability statement and report by exception on any inconsistencies with the financial statements set out on pages 166 to 208; none have been identified (see audit opinion on pages 158 to 164).

## CONCLUSION

The Board considers that the risk management and forecasting controls in place are robust and that the 2020 plan and stress testing outputs provide an appropriate level of information from which to draw a conclusion on the Group's long-term viability. Having reviewed these outputs as summarised above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030.



## OUR RESPONSIBILITY

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

We are one of the largest companies in Wales, with more than 3,500 employees and many more in our supply chain, and our not-for-shareholder business model has resulted in our having applied nearly a half a billion pounds to the benefit of customers since Glas Cymru was formed in 2000. But we are committed to doing more – and work in several areas to benefit the societies we serve.

### EDUCATION

Our commitment to work for the benefit of future generations, now part of the constitution of the Company, means our education programme is more important than ever.

This programme aims to inspire our future customers to become guardians of our water, as a precious natural resource, and educate them on a range of different areas that will benefit the communities they live in. Pupils are able to visit one of our four Discovery Centres – in Cilfynydd Wastewater Treatment Works near Merthyr Tydfil, Cog Moors Wastewater Treatment Works in Vale of Glamorgan, Llyn Brenig Visitor Centre in North Wales, and Elan Valley Visitor Centre in Mid Wales – or through visits to schools across all the areas we serve.

Our teachers regularly visit primary and secondary schools to deliver workshops on water efficiency (Love Dŵr) and pollution (Let's Stop the Block). Since the formation of Glas Cymru in 2000, our education programme has expanded to reach more children than ever before. In July 2019, we celebrated reaching a milestone with this programme – with more than half a million children reached. We were joined in the Senedd by Assembly Members, former teachers, the founders of the programme, and by our Board and independent Members to celebrate this achievement – and set out how we intend to build on it in 2020–2025.

Through these avenues, over the past year alone, we have reached more than 66,000 young people.

#### IN BRIEF

Lessons includes areas such as:

- Awareness of the value of water and the role we play in the communities we serve
- Encouraging behavioural change in water efficiency and sewer abuse
- Safety around our reservoirs and lakes

- The impact of climate change and the need for clean, green energy

We work with organisations like STEM Cymru and Engineering Education Scheme Wales to encourage young people, through secondary school education, to take up careers in the water industry, particularly young women. We also provide comprehensive bilingual online education resources to support teachers.



## COMMUNITY FUND

The Welsh Water Community Fund was launched in 2017 with the aim of supporting projects that benefit health, wellbeing, and the environment in the areas we serve. The Fund gives back to communities where we are carrying out work, and also contributes to the work we do to improve the world we live in for future generations, in line with our public service commitment to work for the good of the communities we serve.

Our work with the Community Fund – which includes the Biodiversity Fund to support specifically environmental projects – has continued over the past year, with more than 120 projects awarded up to £1,000 in funding. This means that, since its creation, the Fund has benefitted more than 700 projects in communities we're working in.

Our own Colleague Fund, specifically to support colleagues with their own individual fundraising efforts, has awarded more than £7,700 across the year, while nearly £25,000 has gone to support one of our official charity partners, WaterAid.

## SUPPORTING OUR COMMUNITIES IN THE CONTEXT OF COVID-19

In April 2020 the Board agreed to more than double the size of our existing Community Fund to £300,000 to target aid for those impacted by COVID-19. This additional money will be used to support three organisations which are playing a key role in providing immediate support to communities – Business in the Community Wales, Community Foundation Wales and the Trussell Trust Wales. In addition, we have committed £11 million of financial support from the Company to ensure we can provide financial assistance to those of our customers who struggle to pay their bills (see page 52).



### GOYTRE FAWR PRIMARY SCHOOL – AWARDED £1,000:

The pupils, families and staff wanted to overhaul the outdoor provision at the school, including installing a pond for the community "Big Build" wildlife project, enhancing the forest area and installing outdoor STEM (science, technology, engineering and maths) resources related to water. This will benefit the wellbeing of existing and future generations of pupils and create more resilient pupils who are responsible and knowledgeable about their environment, biodiversity and the ecosystem they live in. It will also place a high emphasis on their physical and mental wellbeing through the outdoor provision and nurture facilities at the school.



### BANC BWYD AMLWCH – AWARDED £250:

The foodbank is operated by Ewyllys Da Amlwch, a non-profit company, and works in partnership with Anglesey Foodbanks. The company was formed to maintain a foodbank service in Amlwch when the previous organisation encountered difficulties. Much of the food needed is donated by the public and its most significant operating costs include rent to Amlwch Town Council, additional food purchases to meet shortfalls, administrative costs and travelling expenses for volunteers. The funding will also help improve the storage racking and containers for safe food storage and handling.

## CASE STUDIES

## OUR RESPONSIBILITY

### WATER RESILIENT COMMUNITIES

The Water Resilient Communities project aims to build a lasting legacy in the areas where we are doing major work, beyond just pipes in the ground. Following the completion of our successful pilot project in Rhondda Foch, we have launched two further projects in Rhyl and Rhymney-Bargoed – and in the first two months of 2020, we worked with 2,500 pupils in the areas with our education programme alone.

In Rhondda Foch, we reached 2,000 children with lessons on the water cycle – covering lessons on safety around reservoirs, water efficiency, and how we dispose of waste safely. We also helped save customers £120,000 through lower bills through promotion of our social tariffs, while working with 23 groups and organisations to change the way we do things.

### STAKEHOLDER EVENTS

We work with stakeholders throughout the year – engaging with them about the work we do and working in partnership with the local community to minimise any disruption we cause. In the past year, we hosted 136 community information events, sent 153,059 letters to customers about work we're doing, and met with 48 political stakeholders to explain why we're working in their areas.

In March 2020, we held an event in the Senedd to launch a series of commitments to the wellbeing of future generations, which set out our plan to enhance the communities we serve over the next five-year investment period. This was attended by around 60 guests, including Assembly Members, and was addressed by Deputy Minister for the Welsh Government, Jane Hutt AM.

### WATERAID

Our commitment to improving the world around us extends beyond the borders of the areas we serve – we support communities in Uganda to build sustainable and safe water and wastewater systems and provide hygiene education.

This links to WaterAid's aim to help everyone, everywhere by 2030. That's why Welsh Water has been supporting WaterAid since 1981 – when we co-founded it along with the rest of the industry. Our employees and customers have since given more than £1 million to support WaterAid's work and provide regular school outreach activities with lesson plans based around our replica Ugandan Village in Cilfynydd, which demonstrates just how far some people in Uganda have to carry water to reach their homes. In the past year, colleagues have raised more than £53,000 (2018–19: £77,000) for WaterAid through several fundraising activities.

During the year, as part of our commitment to supporting better infrastructure for water and sanitation systems abroad, our Managing Director of Wastewater Services, Steve Wilson, and Water Services colleagues James Lees and Mark Rychnovsky, visited our funded project in Mbale, Uganda, with colleagues from WaterAid. The trip saw us work with the Ugandan government, water authorities, and individual schemes to see the impact of previous Welsh Water projects, as well as the challenges which the Company could support in future – including sanitation planning, water quality treatment, source protection, systems to detect and prevent leaks, and proposed projects for community engagement to get local buy-in. We are developing a programme to support sharing of knowledge and training to support the Ugandan authorities to expand the schemes in place, and to increase accessibility to clean drinking water and sanitation.



James Lees visiting the WaterAid project in Mbale, Uganda

## PRINCE'S TRUST CYMRU

We have also continued our support of the Prince's Trust Cymru, a charity which helps vulnerable young people get their lives back on track. It supports 11–30 year olds who are unemployed, and those struggling at school and at risk of exclusion. This partnership has included fundraising by colleagues through "Million Makers" – and our team of graduates has raised more than £20,000 through several fundraising activities, including a 10km run, an open mic night and a pub quiz.

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

## VISITOR CENTRE INVESTMENTS

As custodian of approximately 40,000 hectares (90,000 acres) of land that is rich in scenery and biodiversity, we are able to provide extensive opportunities for public recreation, education, health and wellbeing. Our Visitor Centres at Llandegfedd (Gwent), Brenig (Denbighshire), and Elan Valley (Powys), where we provide a range of sporting, recreational and leisure facilities, continue to be popular with customers and attracted over 650,000 visitors in 2019–20. With planned investment in our reservoirs at Lisvane and Llanishen and the redevelopment of Llys y Frân, we are working to grow visitor numbers to 830,000 by 2024–25.

## LISVANE AND LLANISHEN RESERVOIRS

These two reservoirs, situated in the north of Cardiff, were acquired by Welsh Water in early 2016, with a view to restoring

them to their former glory and opening them up for the public to enjoy. Alongside the extensive maintenance and safety works, we have been engaging with key stakeholders and the local community to create a shared vision for the site, which is uniquely placed in a major urban conurbation. We have been working closely with NRW and Cardiff Council to develop our access and recreational strategy to maximise public access, while protecting and enhancing the special features of the site. Detailed plans are in development for a visitor hub and watersports facilities, culminating in a planning application to be lodged in 2020. Through working in partnership with Cardiff Council, Cardiff and Vale University Health Board and the local Reservoir Action Group, a £930k ENRAW (Enabling Natural Resources and Wellbeing scheme) grant has been secured from Welsh Government. This will fund the creation of paths around the reservoirs,

conservation and learning zones, signage and interpretation and an innovative community engagement programme with education, volunteering and social prescribing strands.

## LLYS Y FRÂN RESERVOIR

Llys y Frân in Pembrokeshire is currently closed for a major redevelopment of the site, supported by £1.7 million European Regional Development Fund grant through Visit Wales. The plans – which aim to realise our ambition of creating a first-class tourism destination in inland Pembrokeshire – including creating a recreational park and activity centre which will attract an estimated 40,000 additional tourists, outdoor enthusiasts and local residents each year. The project includes the refurbishment and expansion of the visitor centre and café, a new Outdoor Activity Centre to enable a range of watersports, a bike pump skills track and an extended cycle trail around the reservoir.



# OUR RESPONSIBILITY



## ELAN VALLEY

Elan Valley in Powys is benefitting from a £3.3 million investment over five years with support from the Heritage Lottery Fund, local and national partners. Through the *Elan Links partnership*, led by Elan Valley Trust, 26 projects are being delivered to protect and restore historic sites, increase access, recreation and learning opportunities; encourage volunteering, education and skills development; and enhance nature and wildlife. The project has seen the charity Tir Coed working with groups to develop woodland management skills and build a Welsh Roundhouse as part of a training project.

## LLYN BRENIG

Llyn Brenig in Denbighshire has secured a £128,000 grant from Visit Wales to support the Osprey project and enable the live streaming of the nest. We are working closely with the RSPB Wales and North Wales Wildlife Trust to take the Brenig Osprey project forward.

## OUR PEOPLE

As one of the biggest employers in Wales and serving 3.1 million people across our supply area in Wales and England, we are very aware of our responsibility to our employees and to the wider community. We have set out on page 83 details of some of the additional work we do in the communities in which we are working.

As at 31 March 2020, the Group had 3,514 employees (2019: 3,630). Our success is fundamentally dependent upon our highly engaged and motivated people, and we are committed to developing our people to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities that we serve.

## IMPROVING THE DIVERSITY OF OUR WORKFORCE

We do not discriminate against applicants or employees on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation ("protected characteristics" in accordance with the Equality Act 2010) or any other personal characteristic. If an employee is disabled or becomes disabled, we consider any reasonable adjustments that we can make that would help overcome or minimise the impact of the disability in the workplace. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability. We were therefore pleased to achieve accreditation as a Disability Confident Employer this year.

## EQUALITY, DIVERSITY AND INCLUSIVITY

We believe in doing the right thing for our customers, colleagues and the Company, and we are committed to recognising and promoting equality, diversity and inclusivity and treating others with dignity and respect at all times. We have recruited "Inclusivity Ambassadors" over the past year to be part of our first-ever inclusivity working group. This group, made up of colleagues across each of the Protected Characteristics defined by the Equality Act, has since been examining the Company's equality, diversity and inclusivity strategy and is building an action plan.

By engaging with diverse talent, Welsh Water is able to improve access to skills that are in short supply, creating a larger talent

pool, and also enhance our reputation as Employer of Choice. By working to develop a workforce representative of the customers served, Welsh Water will build customer trust, benefitting not only recruitment, but wider business aims also.

Working with charities and organisations such as WISE, Stonewall, Chwarae Teg and the Prince's Trust, Welsh Water is able to attract individuals who may otherwise feel that there are significant barriers to employment.

Welsh Water's commitment to a gender diverse workforce is supported by our work with WISE, a campaign for gender balance in science, technology and engineering. Following their 10-step model means making the right cultural changes that can in turn have a significant impact on attraction, recruitment and retention as does signing up as a FairPlay employer with Chwarae Teg and promoting their "Step to Non-Exec" programme, which supports women aged between 21 and 30. We have sponsored some of our female colleagues to take up Non-Executive Director roles within other organisations.

Our work with EU Skills on the Diversity and Inclusion Network Forum means that we are able to work with other companies in diversifying the workforce and ensuring that as a sector we are fair and equal, while also retaining this talent to ensure a sustainable and resilient future for the essential services delivered by the sector. As part of our work together within the EU Skills Partnership, we have collectively built and progressed an Inclusion Commitment that already has 32 UK companies participating. Also, as part of our membership of the Talent Source Network, Welsh Water is involved in a number of diverse job boards including DESIblitz (a British Asian web magazine).



#### WILLOW SMALLBONE, DATA AND ANALYTICS MANAGER:

"The water industry is in a very exciting time of change, realising the importance of using data as an asset to help drive investment and support decision-making. Senior management and regulators are focusing on the use of data and driving to embed its use into organisations. We are seeing the world of technology and data changing at a rapid speed, the water industry is working to integrate these developments into their organisations. It is incredibly important to build an analytical team that is as balanced and representative as possible."

#### CASE STUDY

## OUR RESPONSIBILITY

We work with the Prince's Trust to ensure our recruitment processes include a broader range of selection methods to complement our diversity agenda. We also signed up to Disability Confident; and this year successfully achieved our "Disability Confident Employer" award, and the Business Disability Forum to promote Welsh Water as an employer to individuals with disabilities. We are also working with Remploy to introduce a Disability Work Readiness Programme, a one-week work shadowing programme for people with disabilities or health conditions who have been unemployed for at least a year. This also reinforces that we as an employer are committed to employing people with the right skills and attributes regardless of their background or characteristics. To develop our commitment further we have become a Defence Recognised Employer by signing the Armed Forces Covenant, removing the barriers to employment for ex-military and reservists working in Welsh Water.

To improve our ability to attract diverse employees we intend to:

- continue to engage with organisations with links to related talent pools;
- seek relevant ideas and information from our current workforce; and
- change the way we recruit to reach out to different community leaders and gain their support establishing relationships with key third-party organisations who can help us reinforce our credentials as an employer committed to improving diversity.



### CAREER PATHS

The list below sets out some of the different development routes we offer to those choosing to join our business:

#### GRADUATES

- Leadership Development
- Automation, Telemetry and Control Engineering
- Data Science/Data Engineering
- Economist/Financial Analyst

#### DEGREE APPRENTICESHIPS

- Mechanical Engineering
- Electrical and Electronic Engineering

### HIGHER APPRENTICESHIPS

- Computer Programming
- Cyber Security
- Data Analytics

#### APPRENTICESHIPS

- Apprentice Distribution Inspector
- Apprentice Mechanical Fitter
- Apprentice Electrician
- Apprentice ICA Technician
- Trainee Sewerage Operative
- Trainee Production Technician
- Apprentice Customer Service Adviser
- Apprentice Administrator
- Apprentice Quantity Surveyor



**NKECHI ALLEN-DAWSON,  
COMMERCIAL ANALYST:**

"Greater diversity could result in significant benefits. By widening the net and employing more people from beyond the usual demographics, the water sector can go a long way towards addressing its skills shortages and open itself up to different approaches."

**CASE STUDY**

We were delighted to win the award for Best Apprenticeship Scheme this year. The judges commented "Dŵr Cymru Welsh Water's submission demonstrated excellent strategic workforce planning that supports longevity and talent growth and the progressive approach focused on both diversity and inclusion."

**INTERNSHIPS AND  
WORK EXPERIENCE**

Our internships are undergraduate placements and carefully monitored work experience:

- **Summer Internship Programme:** These are 12-week placements

- **12-month Internships:** These usually start in September and finish in the following August
- **Work Experience:** These range from a couple of days to two weeks and start any time throughout the year.

**NETWORK 75**

Network 75 is a programme consisting of both undergraduate study and on-the-job learning. The programme is aligned to the duration of part-time study for a particular degree. To develop our own talent, we currently have undergraduates working with us and studying one of the following degree programmes – Civil Engineering, Mechanical, Electrical and Quantity Surveying.

**SUPPORTING OUR  
COLLEAGUES AND  
SUPPLY CHAIN**

During 2019-20 we have continued to focus on wellbeing issues across our colleague base, and during the year we recruited a further 11 Wellbeing Champions. We have enhanced the training we offer to managers in relation to mental health and have introduced i-act training and developed a Talking Toolkit. We continue to work alongside mental health charity, Mind Cymru, to help us stay focused on reducing the stigma surrounding mental health and we have spoken at events at NRW and Public Health Wales about the work we have done in supporting colleagues who need assistance.

## OUR RESPONSIBILITY

### HUMAN RIGHTS

We are committed to respecting human rights in relation to colleagues, and our supply chain. Our Code of Conduct was relaunched in March 2018. This explicitly encourages colleagues to "speak up" if anything doesn't seem right to them, in order to reinforce our culture of "doing the right thing" and individual accountability.

The Code is supported by several Group policies, as well as associated procedures and guidance, including:

#### ANTI-BULLYING AND HARASSMENT

We respect human dignity and the rights of individuals. Our Group policy articulates how colleagues should behave towards each other. During 2018 the Executive team and senior managers undertook unconscious bias training to reinforce our commitment to a culture of inclusivity and respect. Unconscious Bias training was made available to all colleagues through eLearning in 2019 and is now part of all new colleagues' induction.

### SAFEGUARDING

We are committed to ensuring that colleagues who work with children and vulnerable adults are properly trained, and this year we have developed our policy in this area to support this. We are now working with a provider to deliver safeguarding training to our colleagues, designated safeguarding leads and their deputies who work with children and vulnerable adults.

### WHISTLEBLOWING

A healthy culture where individuals feel able to speak out about anything that causes them concern is an important part of our three lines of defence compliance model. We publicise the availability of our external helpline, which provides an additional confidential and secure means to enable our employees, suppliers, business partners and other stakeholders to raise concerns about conduct which is contrary to our values. We are fully committed to protecting any employee who reports a breach or suspected breach of the Code of Conduct or raises any other public interest disclosure.

The Audit Committee receives Whistleblowing reports in private sessions with the Head of Business Assurance at the end of each meeting. Matters are investigated and reported back to the Committee at its next meeting.

### MODERN SLAVERY ACT 2015

Welsh Water is committed to meeting the aims of the Act. We strongly oppose slavery, human trafficking and child labour and we work to raise awareness across the business and in our supply chains. We have made clear to colleagues and suppliers that we will not tolerate slavery and human trafficking in our supply chains or any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking, and reserve the right to terminate our agreements with any third party found to have engaged in unfair employment practices.

Our Anti-Slavery Policy sets out Welsh Water's commitment to acting ethically and with integrity in our supply chain arrangements.

"A HEALTHY CULTURE WHERE INDIVIDUALS FEEL ABLE TO SPEAK OUT ABOUT ANYTHING THAT CAUSES THEM CONCERN."



We regularly review the effectiveness of our policies and procedures, to ensure they remain fit-for-purpose.

During the COVID-19 pandemic we have taken steps to ensure the safety of our capital and operations contractors; we have adopted COVID-19 safe working construction practices, as set out by the Construction Leadership Council, and have re-planned work to enable social distancing, wherever possible, and the use of appropriate PPE. We have amended our payment cycle and all invoices are now paid within 10 days of approval. We have sought to support suppliers and measures include regular communications with key suppliers, the sharing of work plans and frequent discussions on resource availability. We have brought forward work to provide suppliers with continuity of work thereby reducing the need for furloughing. We have engaged with our offshore suppliers to test how workers, now based at home, are being supported. We have invested in additional transport to enable socially distant travel for relevant suppliers.

Our Anti-Slavery statement can be found at [dwrcymru.com/AR2020-antislavery](http://dwrcymru.com/AR2020-antislavery).

### ANTI-BRIBERY & CORRUPTION AND ANTI-FRAUD

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



of internal control as part of our ongoing efforts to prevent bribery and corruption in our business and our supply chain.

### CONFLICTS OF INTEREST

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

### DATA PROTECTION AND INFORMATION SECURITY

Welsh Water is committed to ensuring that we handle the personal information of our customers and employees in a responsible and honest way in all that we do which includes respecting their data protection rights and in compliance with Data Protection legislation. We have embedded our updated Group-wide policies and procedures (in relation to the collection, use and handling

of personal information and individuals' rights) following the coming into force of the Data Protection Act 2018 (the General Data Protection Regulation). The Data Protection Officer and her assistant solicitor continue to raise awareness across the Group that the personal data we hold belongs to individual customers or colleagues, highlighting the importance of protecting their privacy, and keeping our processes under review and adopting them where necessary. Our Privacy Statement is available on our website: [dwrcymru.com/AR2020-Statements](http://dwrcymru.com/AR2020-Statements).

Our policies also reinforce the role of individuals in keeping information secure and accurate. The Audit Committee regularly reviews our approach to cyber security risk. During the year, we maintained our Cyber-Essentials certification and we are working towards ISO 27001 accreditation for our information security controls.

## OUR RESPONSIBILITY

### WELSH LANGUAGE SCHEME

We have adopted the principle that in the context of conducting our public business in Wales we will treat the Welsh and English languages on a basis of equality.

We welcome dealing with customers and other stakeholders in Welsh or English, and aim to provide an effective standard of service in both languages. We also encourage the use of Welsh among our colleagues and run training pathways to support our colleagues to learn or develop their proficiency in the language. From Autumn 2020, colleagues who have difficulty attending the classroom-based sessions will be able to access Welsh Language e-learning training.

Our Welsh Language Scheme is an approved scheme under the provisions of the Welsh Language Act 1993. We are continuing to work closely with the Welsh Language Commissioner's office to prepare for the implementation of the provisions of the Welsh Language (Wales) Measure 2011.

This annual report is also available in Welsh.

### BIODIVERSITY

Since December 2019, under the Environment (Wales) Act 2016, we report on a three-yearly basis on compliance with our duty to strengthen biodiversity and ecosystems across our supply area. We were the first organisation in Wales to publish a biodiversity plan in December 2018. Our plan – Making Time for Nature – highlighted what we are doing across the business to support nature and biodiversity and what we intended to do by 2019. In December 2019 we published "Doing The Right Thing For Nature", which tracked the progress we have made since our initial plan. This showed we are on track, or progressing, the majority of the commitments we made in our action plan.

Examples of projects we have supported through our Biodiversity Fund, set up in 2018 to help support other organisations with their efforts to benefit the environment, include a wetlands biodiversity enhancement project in Llanelli, the restoration of a large pond in Castle Meadows, Abergovenny, a scheme to encourage fishery owners and community groups to adopt a tributary of the River Tywi and improving access of migratory fish to stretches of the Rivers Conwy and Clwyd.

### INNOVATION

Our innovation portfolio in AMP6 included some 621 ideas and proposals which have been reviewed through our iLab process since we started in April 2015. We have completed some 148 projects, winning eight innovation awards in the process. We have worked with 145 partner organisations, investing some £6.4 million on new technology trials during AMP6.

Our AMP7 proposals include our catchments work (circa £20 million), our Sustainable Management of Natural Resources (SMNR) investments (circa £20 million) and monitoring our environment to help shape policy and Ofwat's thinking for PR24.

We published our Innovation Strategy and associated Journey Plans (one for each Strategic Response in Welsh Water 2050) in April 2019, to guide our thinking and focus our investments in AMP7. This was well received by stakeholders and our regulators alike. Our innovation investments continue to be targeted at driving efficiencies, reducing our environmental footprint, and improving our health and safety record. As well as investing in driving innovative change, we continue to work closely with our Independent Environmental

"WELSH WATER IS COMMITTED TO ENSURING THAT WE HANDLE THE PERSONAL INFORMATION OF OUR CUSTOMERS AND EMPLOYEES IN A RESPONSIBLE AND HONEST WAY."



Dŵr Cymru's peatland habitats restoration in the Black Mountains Site of Special Scientific Interest, surrounding Grwyne Fawr Reservoir.



Advisory Panel (made up of regulators, academics and environmental stakeholders) who advise the business on the science and research we undertake. The Panel continues to assist us in tapping into the expertise and resources available in such bodies and to build our relationships with them, in order to leverage funding and expertise into our science and research work. More generally, we continue to drive elements of the national research agenda through our strategic relationship with the National Environmental

Research Council (NERC) and UK Research Institute (UKRI), and by participation in water industry research initiatives, most notably through membership of the UK Water Industry Research partnership (UKWIR) which manages and coordinates the common research interests of UK water companies.

Our 2020 Innovation Conference, to which we hoped to have welcomed some 700 guests, has been delayed to the end of October. This annual event showcases examples of innovation from around the company and with our alliance partners.

## HOW WE MEASURE OUR CARBON FOOTPRINT

Since 2010 we have reduced our carbon emissions by 79%. For Welsh Water, we monitor and measure our carbon footprint by using the UK water industry carbon accounting tool (also known as the Carbon Accounting Workbook), which follows the 2013 UK Government Environmental Reporting Guidance and the GHG Protocol Corporate Accounting and Reporting Standard (2015). For Welsh Water Organic Energy, we monitor and measure its carbon footprint using the Protocol for the quantification of Greenhouse Gas emissions from waste management activities, which also follows the GHG Protocol Corporate Accounting and Reporting Standard (2015).

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

## ENERGY USE AND GREENHOUSE GAS EMISSIONS

60,232

NET CARBON EMISSIONS 2019-20

122 GWh ▲

GENERATED FROM RENEWABLE

79% ▼ Compared to 2010-11 baseline

TONNES CO<sub>2</sub> EQUIVALENT (tCO<sub>2</sub>E)

24% ▲ of our electricity and gas consumption in 2018-19

RENEWABLES MADE UP

## OUR RESPONSIBILITY



Pontsticill Reservoir

other fuels used by Welsh Water, including transport fuels. We do not report passenger travel miles using public transport, as the numbers are deemed de minimis. Here we set out our reporting for the financial year 2019–20.

The reported carbon footprint includes direct, indirect and net emissions (also known as scope 1, 2 and 3 emissions). The sum of the three scopes are the net operational carbon emissions (market-based total). For completeness the gross operational carbon emissions trend (location-based total) is also presented.

The presented intensity ratios for our water services are calculated using the quantity of water that has been put into supply (distribution input) as the denominator. The presented intensity ratios for our wastewater services are calculated using the quantity of sewage (flow to full treatment) as the denominator. In both cases the unit used for the denominator is megalitre (Ml).

### CLIMATE CHANGE – WHAT ACTIONS ARE WE TAKING

As part of our response to climate change, and in order to reduce carbon emissions, Welsh Water invests in renewable energy generation technologies (combined heat and power

generation fuelled by bio-methane derived from sewage sludge, bio-methane injection into the gas grid, hydro turbines, onshore wind turbines and solar energy). Our target is that by 2035, these renewable energy schemes will supply 35% of the energy we need to provide services to our customers.

A proportion of the renewable power that is needed to treat wastewater at our largest sewage treatment works at Cardiff, is provided by Welsh Water Organic Energy, which converts food waste collected by Cardiff and Vale of Glamorgan Council, into renewable electricity.

The remaining ~65% is procured from our electricity supplier Ørsted, who provide Welsh Water with 100% renewable energy, which is REGO (Renewable Energy Guarantee of Origin) backed. The REGO enables a company to show named sources for all its electricity and declare these supplies as being carbon-free (i.e. these supplies have a net zero impact on the net carbon emissions), in line with the Greenhouse Gas Protocol.

Between 2015–20, Welsh Water invested £20.3 million to reduce energy consumption and £24.8 million on increasing renewable

generation (hydro, solar and wind generation), totalling £45.1 million of investment. This included investment in the installation of energy efficient lighting, pumps and blowers and the implementation of automated process controls. In the financial year 2019–20, Welsh Water invested £3 million in energy efficiency and renewable generation and reduced grid imports by ~5.4GWh per year.

In total, £37.2 million of investment has been delivered over this five-year period, reducing grid energy use of 54.8GWh per year. To achieve our 35% self-sufficiency target by 2025, we plan to invest a further £21 million in energy efficiency projects and renewable energy generation projects.

### TARGETS AND TRENDS

Until 2017–18 our operational carbon emissions were dominated by electricity consumption from the national grid. In 2017–18 our net operational carbon emissions fell dramatically (by 70% down to 63 ktCO<sub>2</sub>e) due to a change in our electricity supply contract to Ørsted as explained above, with effect from 1st April 2017.

In 2019–20 Welsh Water's reported carbon footprint remained relatively stable at 59.7 ktCO<sub>2</sub>e, but would have reduced by ~7kt compared to 2018–2019, if the positive effect of the green gas to grid at our Five Fords Wastewater Treatment Works was taken into account. The REGO associated with the green gas export were sold on and therefore cannot be taken into account.

The carbon footprint of Welsh Water Organic Energy decreased to 512 tCO<sub>2</sub>e in 2019–20, due to the increased volume of food waste processed and the corresponding increase in generation output. Overall, the carbon emissions for the Group remained stable at 60.2 ktCO<sub>2</sub>e.

The AMP6 Measure of Success for carbon emission reduction was "renewable energy generated" and this increased to 122 GWh from 85 GWh in 2018-19. The increase in renewable generation was mainly due to the commissioning of the Five Fords Advanced Anaerobic Digestion facility during the period, which tripled the green gas generation capacity on the site. The AMP6 measure will be replaced in AMP7 by "percentage self-sufficiency", which recognises the need to reduce gross energy consumption as well as increase the proportion of renewable generation.

Welsh Water's gross energy consumption is generally increasing year-on-year, mainly as a result of increased

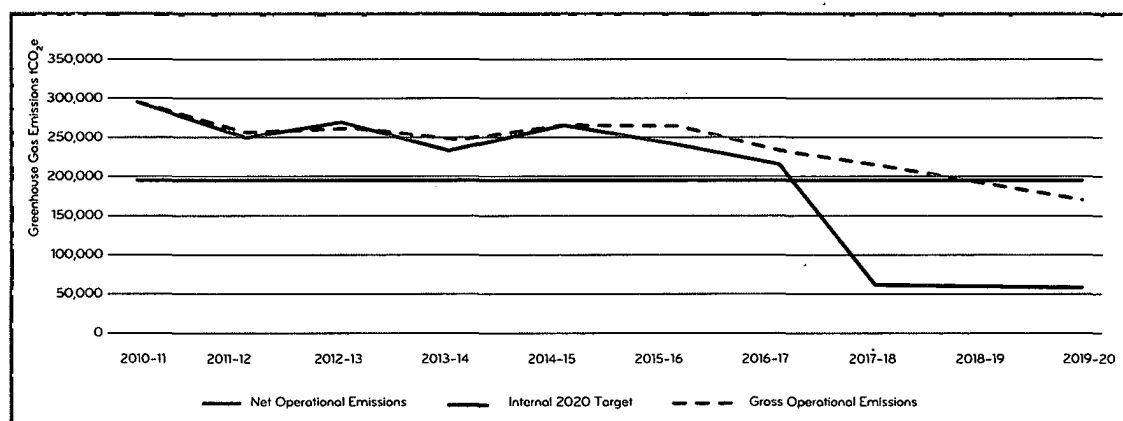
water consumption, additional treatment required to meet ever-tightening compliance criteria and abstraction licence changes, which increases pumping energy use. Extreme weather events (for example, Storm Dennis) also increase energy consumption through additional pumping of storm water through the sewage network. These upward energy consumption pressures can offset the energy consumption improvements made by installing energy efficient equipment (motors, pumps, lighting).

The key focus for the next five years is to reduce consumption. An energy efficiency investment programme has been developed for AMP7, which will be supported by a behavioural efficiency

programme that plans to reduce gross electricity consumption by 3% by the end of AMP7 (2025).

To better assess the overall climate change impact of the Company, we have started to assess the impact that our significant land holdings (reservoirs, forestry, peat bogs) have on climate change through carbon sequestration. We aim to report the initial outcome of this assessment next year.

## OUR CARBON FOOTPRINT SINCE 2010-11



## ENERGY USE AND GREENHOUSE GAS EMISSIONS YEAR-ON-YEAR

|                             | Unit                   | 2017-18 | 2018-19 | 2019-20        |
|-----------------------------|------------------------|---------|---------|----------------|
| <b>Water Services</b>       |                        |         |         |                |
| Energy Intensity            | kWh/ML                 | 794     | 823     | <b>793</b>     |
| Carbon Intensity            | kgCO <sub>2</sub> e/ML | 7       | 13      | <b>7</b>       |
| <b>Waste Water Services</b> |                        |         |         |                |
| Energy Intensity            | kWh/ML                 | 551     | 587     | <b>526</b>     |
| Carbon Intensity            | kgCO <sub>2</sub> e/ML | 89      | 83      | <b>72</b>      |
| <b>Welsh Water Total</b>    |                        |         |         |                |
| Energy use                  | MWh per year           | 543,901 | 566,064 | <b>580,355</b> |
| Carbon Footprint (inc WWOE) | tCO <sub>2</sub> e     | 62,966  | 60,727  | <b>60,232</b>  |





# GOVERNANCE REPORT

THIS GOVERNANCE REPORT PROVIDES  
INFORMATION ON THE BOARD AND  
COMMITTEES OF GLAS CYMRU, HOW WE  
MEET THE UK CORPORATE GOVERNANCE  
CODE, DETAILS OF OUR MEMBERSHIP  
AND OUR APPROACH TO REMUNERATION

---

|                                            |     |
|--------------------------------------------|-----|
| Chair of the Board's Introduction          | 93  |
| Governance at a Glance                     | 100 |
| Board of Directors                         | 102 |
| Corporate Governance Report                | 103 |
| – Board Leadership and Company Purpose     | 110 |
| – Division of Responsibilities             | 114 |
| – Composition, Succession and Evaluation   | 119 |
| – Nomination Committee Report              | 120 |
| – Audit, Risk and Internal Control         | 123 |
| – Audit Committee Report                   | 124 |
| – Quality and Environment Committee Report | 127 |
| – Remuneration                             | 129 |
| – Remuneration Committee Report            | 130 |
| – Part 1: Implementation in 2019-20        | 135 |
| – Part 2: Report on Remuneration Policy    | 141 |
| – Part 3: Implementation in 2020-21        | 146 |
| Directors' Report                          | 154 |
| Statement of Directors' Responsibilities   | 156 |

# CHAIR OF THE BOARD'S INTRODUCTION

"I AM PLEASED THAT THE COMPANY'S PURPOSE IS NOW ENSHRINED WITHIN OUR CONSTITUTION."

**Alastair Lyons CBE**  
Chair of the Board



## FOCUS AREAS IN 2019–20

- Reviewing and updating the Company's Purpose and enshrining this in our Articles of Association in December 2019.
- Considering the Company's wider contribution to its customers and communities and formalising these in the Wellbeing Commitments which were launched at the Senedd in March 2020.
- Considering the Company's key strategies for AMP7 and the progress that these will make towards the 18 strategies set out in Welsh Water 2050, the Company's long-term strategy.
- Reviewing compliance with the 2018 UK Corporate Governance Code, in particular the workforce engagement provisions, and developing the Board's engagement strategy.
- Reviewing the succession plan for the Board and progress towards diversity goals.

On behalf of the Board, I am pleased to introduce the Glas Cymru Group Corporate Governance Report for 2019. Our company values are focused on "doing the right thing" for our customers and good governance is a key aspect of "doing the right thing".

## GOVERNANCE

During the year ended 31 March 2020, we have applied the principles of good governance and complied with all of the provisions contained in the 2018 UK Corporate Governance Code (the Code) except for part of provision 41 that relates to engagement with the workforce to explain alignment of Executive remuneration with wider Company pay policy. This is discussed further in this report.

## BOARD CHANGES

At the end of the financial year 2019–20, Chris Jones retired as Chief Executive, and was succeeded by Peter Perry, who has a longstanding relationship with the Company, having started his career with Welsh Water some 39 years ago. Chris Jones remained an Executive

Director until 15 May 2020. At the end of December 2019, Peter Bridgewater stepped down as Finance and Commercial Director, and Mike Davis was appointed to the Board in the role of Chief Financial Officer for the Group.

In January 2020, we were delighted to welcome Debra Bowen Rees as new Non-Executive Director, in preparation for Menna Richards and Anna Walker both retiring from the Board in July 2020 (see further detail in the Nomination Committee Report page 120). As the Chief Executive of Cardiff Airport, Debra is closely connected with Welsh affairs and has strong operational experience, having previously had a long career in the armed forces (for further details, please see her biography on page 106).

## STAKEHOLDERS

The Board is very conscious that its decision-making should promote the long-term success of the Company and recognise the interests of the Company's many stakeholders. Our unusual corporate structure, without shareholders, ensures that the key focus of the Board is on the interests of our customers and communities across the company's supply area (for further detail, please see pages 24 and 25, which includes information about the Company's engagement with its key stakeholders). In the light of the specific provisions in the Code around workforce engagement with the Board, we have reviewed the ways in which we currently engage with the workforce, through formal and informal meetings, lunches and dinners with local teams, meeting customer call centre and operational call centre teams and listening to customer calls, and visiting operational sites across our supply area. We considered whether to adopt one of the three methods specified in the Code, and decided to expand our existing engagement opportunities by inviting Non-Executive Directors to attend employee engagement sessions which are held with Employee Engagement Champions from across the business on a quarterly basis. Refer to the Our Stakeholders section and the Directors' Section 172 Statement on pages 24 and 26, respectively.

The Board met on 11 occasions during 2019–20, including two additional meetings to review and agree the Company's inputs into the PR19 price review process. At each Board meeting, and on a monthly basis between Board meetings, the Board receives detailed information on Health and Safety lagging and

leading indicators and current issues, operational performance and current operational issues, financial performance and bad debt, people and recruitment updates, and regulatory/legal developments. This information is reviewed in detail at each Board meeting and the Quality and Environment Committee of the Board also met on six occasions in 2019–20 to review operational and regulatory performance issues in more detail.

The Board also meets both formally and informally with members of the Executive team and senior managers across the business and individual Non-Executive Directors have the opportunity to learn about operational issues and visit sites on a regular basis.

## PURPOSE, VALUES AND CULTURE

We are pleased to have reviewed the Company's Purpose earlier in the reporting year and for this to now be enshrined within our constitution by incorporating our purpose into our Articles of Association, which was approved by our Members at an Extraordinary General Meeting in December 2019. You can read more on our Purpose, values and culture on pages 26 and 27.

## BOARD EVALUATION

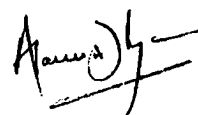
During the year, an externally facilitated evaluation of the Board's performance was led by independent external consultant, Ian White, to ensure that the Board continued to operate effectively and that it was acting on the recommendations from its previous reviews. A summary of the outcomes of the Board's discussion and consideration of the results of the evaluation are set out in more detail on pages 118 and 119 of this report.

## DIVERSITY

Succession planning and diversity remain key areas of focus for the Board and the Nomination Committee as we seek to ensure that the composition and balance of the Board is reviewed and refreshed where necessary and that Directors with the appropriate skills and experience and from a diverse range of backgrounds join the Board to bring fresh perspective and challenge. The Board continues to oversee the focus by the Executive Team on promoting diversity in the widest sense, to enhance the range of views across our workforce and in our executive pipeline and to ensure that we properly reflect the communities we serve.

Our unusual not-for-shareholder structure, where we have Members and not shareholders, means that we are very fortunate to have a record of good attendance at our Annual General Meetings held in July. There are also other opportunities for Member engagement, both for the Board to meet with Members in addition to the main AGM at half-yearly Member meetings, and for our Members to attend tours and events organised by the business, during the year.

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



**Alastair Lyons CBE**  
Chair of the Board

5 June 2020

# GOVERNANCE AT A GLANCE

## KEY BOARD DECISIONS

- approving the Company Purpose and proposing to Members that it be incorporated into the Company's Articles of Association.
- approving the business plan and submission as part of the Ofwat Price Review 2019.
- resolving to accept the terms of Ofwat's Final Determination for PR19.
- approving the Company's senior and junior Bond issues.
- approving the process and appointment of a new Chief Executive Officer, Group Financial Officer and Non-Executive Director.
- approving business plans and budgets for 2020-21.

## BOARD CHANGES

- Chris Jones, one of the founders of Welsh Water as a not-for-shareholder company in 2001, retired as Chief executive on 31 March 2020. He remained on the Board in an Executive capacity until 15 May 2020.
- Peter Perry, Managing Director and Director on the Board since 2016, succeeded Chris Jones as Chief Executive on 1 April 2020.
- Peter Bridgewater, Finance and Commercial Director, stepped down from the Board on 31 December 2019.
- Mike Davis, former Strategy and Regulation Director, was appointed as Chief Financial Officer and Director on the Board on 1 January 2020.
- Debra Bowen Rees was appointed as a Non-Executive Director on 1 January 2020.
- Menna Richards and Anna Walker will both retire from the Board at the conclusion of the AGM on 3 July 2020.

## GOVERNANCE CHANGES

- reviewed and updated the Board's procedures and Committee's Terms of Reference in response to the 2018 UK Corporate Governance Code.
- employee relations – Non-Executive Directors now meet with Employee Engagement Champions quarterly.
- appointed Deloitte as the new advisors to the Remuneration Committee.
- formalised the Company's existing policy on fees for non-audit services.
- improved Operator Self-Monitoring reporting – change in reporting lines to bring together clean and wastewater compliance sampling under Legal and Compliance independent from the business units.

## OUR GOVERNANCE FRAMEWORK

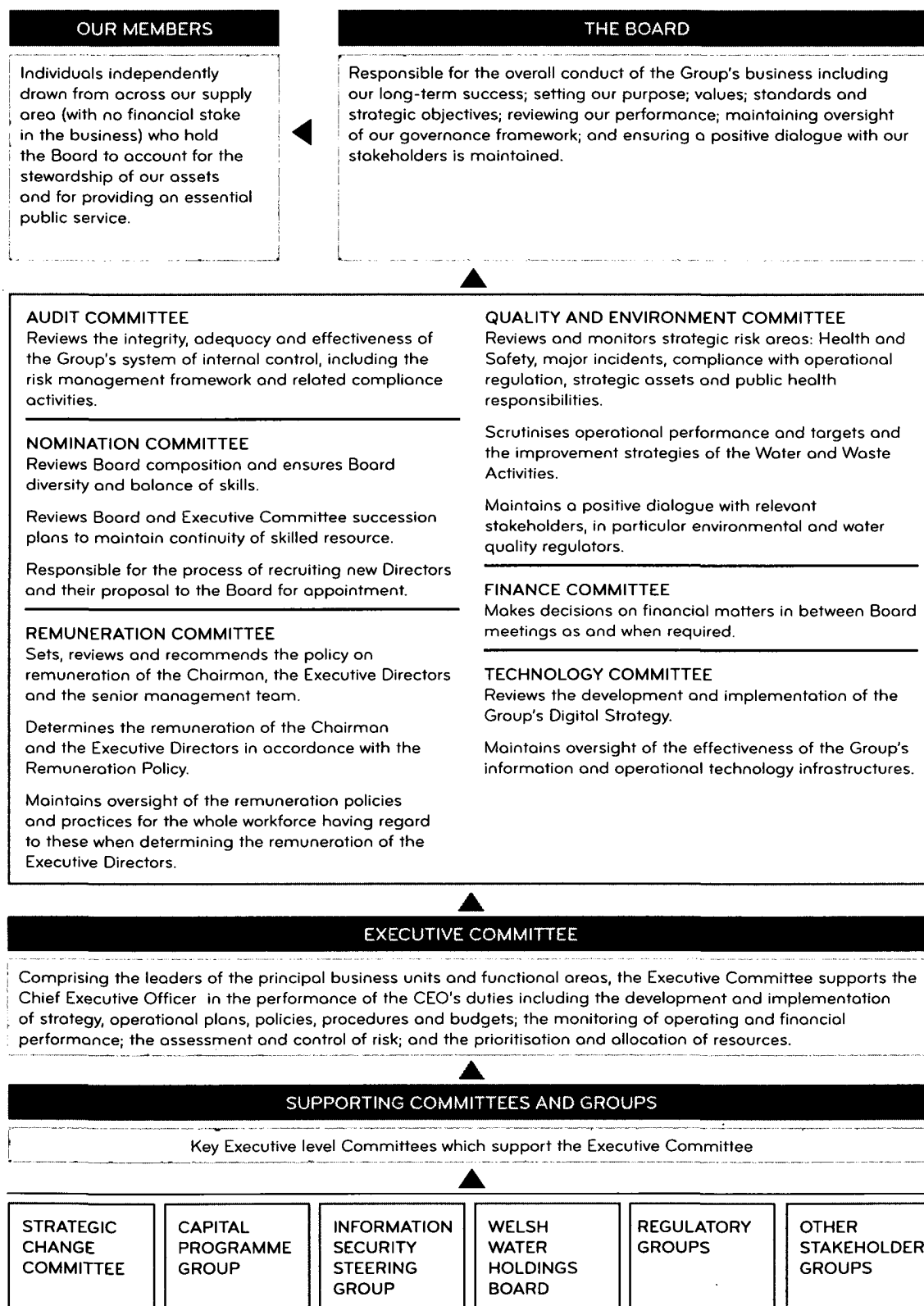
We pride ourselves on conducting our business in an open and transparent manner. Our well-established culture and strong open culture ensures that our governance framework remains flexible, allowing for fast, efficient and effective decision-making and management oversight.

The structure of our governance framework demonstrates how the Board, which focuses on strategy, monitoring the performance of our operations and governance, risk and control issues, is supported by the Executive and other management committees which are responsible for implementing our strategic objectives and our operational performance in line with an established risk management framework, compliance policies, internal control systems and reporting requirements.

The new Dŵr Cymru Executive team began meeting from January 2020 in preparation for Peter Perry taking on the role of Chief Executive Officer from 1 April 2020. The team comprises 16 individuals representing all of the key functions of the business, and is closely supported by our risk management and business assurance functions.

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

By maintaining this structure of management control, the Board gains its assurance that Welsh Water's operations are being run effectively and that decisions are made in line with our commitment to our values to always do the right thing. It also ensures that all decision-making is adequately informed and is supportive of the Directors' duty under Section 172 of the Companies Act 2006 to act in a way that promotes the success of the organisation as a whole taking into account the interests of all its stakeholders. Details of how we engage with our key stakeholders can be found on pages 20 to 23, and examples of how the Board has taken their interests into consideration during the year are described in the Section 172 Statement on pages 24 and 25.



# BOARD OF DIRECTORS





- 6** JOHN WARREN  
NON-EXECUTIVE DIRECTOR
- 7** MENNA RICHARDS  
SENIOR INDEPENDENT  
NON-EXECUTIVE DIRECTOR
- 8** ANNA WALKER  
NON-EXECUTIVE DIRECTOR
- 9** DEBRA BOWEN REES  
NON-EXECUTIVE DIRECTOR
- 10** GRAHAM EDWARDS  
NON-EXECUTIVE DIRECTOR
- 11** JOANNE KENRICK  
NON-EXECUTIVE DIRECTOR

# BOARD OF DIRECTORS

1



**CHAIR OF THE BOARD**  
**ALASTAIR LYONS CBE**

APPOINTED NON-EXECUTIVE  
DIRECTOR: MAY 2016  
IN POST SINCE: MAY 2016

**COMMITTEE MEMBERSHIP:**

**F R Q N** CHAIR **T**

**Responsibilities**

See summary on page 115

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

**Skills and Experience**

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

**Current other**

Alastair is also Chairman of Horwath Group plc, Vitality Health Ltd, AECs, the Admiral Group's European holding company and of the Eaton House Schools Group

**Previous Non-Executive positions**

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

2



**CHIEF EXECUTIVE OFFICER**  
**(FROM 1 APRIL 2020)**  
**FORMER MANAGING DIRECTOR**  
**PETER PERRY**

IN POST SINCE: APRIL 2020  
MANAGING DIRECTOR FROM  
OCTOBER 2017

**COMMITTEE MEMBERSHIP:**

**F N Q**

**Responsibilities**

Formerly as Managing Director, Peter was responsible for the implementation of operational strategy and for leadership of the regulated business, which is divided into three divisions – Water, Wastewater and Retail. He was appointed Chief Executive Officer with effect from 1 April 2020.

**Skills and Experience**

Peter was appointed Chief Executive Officer in April 2020. He was the Managing Director of Dŵr Cymru Welsh Water from October 2017 after four years as Chief Operating Officer.

Appointed as 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.

**Previous Non-Executive positions**

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

3



**NON-EXECUTIVE DIRECTOR**  
**PROF. TOM CRICK MBE**

IN POST SINCE:  
OCTOBER 2017

**COMMITTEE MEMBERSHIP:**

**Q T** CHAIR

**Responsibilities**

See summary on page 115.

Tom also chairs the Technology Committee.

**Skills and Experience**

Tom is Professor of Digital Education & Policy at Swansea University, with his academic interests sitting at the research/policy interface – from data science and intelligent systems through to public services and national infrastructure. He has provided expert advice to the Welsh Government across a number of policy areas, and is currently a Commissioner of the National Infrastructure Commission for Wales. Tom was appointed MBE in the 2017 Queen's Birthday Honours for services to computer science and the promotion of computer science education.

**Current other**

**Non-Executive positions**

Commissioner of the National Infrastructure Commission for Wales and Independent Member of Swansea Bay University Health Board.

## SERVING OUR CUSTOMERS AND COMMUNITIES

Committee key  Audit  Finance  Nominations  Remuneration  Quality and Environment  Technology

4



**CHIEF EXECUTIVE**  
(UNTIL 31 MARCH 2020)  
**CHRIS JONES**

IN POST SINCE:  
SEPTEMBER 2013

COMMITTEE MEMBERSHIP:

#### Responsibilities

Within the strategies set by the Board, to manage the Group's business effectively. Chris is one of the two founder Directors of Glas Cymru in 2000.

#### Skills and Experience

Chris became Chief Executive in September 2013 having previously been Finance Director of Welsh Water since May 2001 and Glas Cymru since April 2000. He has also previously served as Director of Regulation of Welsh Water and South Wales Electricity plc. Before joining Welsh Water in 1995, he was a Director at National Economic Research Associates and, prior to that, worked for HM Treasury.

#### Current other

##### Non-Executive positions

Deputy Chairman of the Prince's Trust Cymru Advisory Committee since 2009.

##### Previous Non-Executive positions

Non-Executive Director of the Principality Building Society. Trustee of the Institute of Welsh Affairs.

Chris Jones remained as a Director on the Board until 15 May 2020.

5



**CHIEF FINANCIAL OFFICER**  
**MIKE DAVIS**

IN POST SINCE:  
JANUARY 2020

COMMITTEE MEMBERSHIP:

#### 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. Mike took up the role of Chief Financial Officer with effect from 1 January 2020.

#### Previous Non-Executive positions

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

6



**NON-EXECUTIVE DIRECTOR**  
**JOHN WARREN**

IN POST SINCE:  
MAY 2012

COMMITTEE MEMBERSHIP:

 CHAIR  CHAIR 

#### Responsibilities

See summary on page 115.

John is also Audit Committee Chair.

#### Skills and Experience

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

#### Current other

##### Non-Executive positions

He is currently a Non-Executive Director and Chairman of the Audit Committee for Greencore Group plc, 4imprint Group plc and Bloomsbury Publishing Plc.

##### Previous Non-Executive positions

John has been a Non-Executive Director and Chairman of the Audit Committee of the following companies: Spectris plc, Rexam Plc, Bovis Homes Group PLC, Rank Group Plc, Uniq Plc, Arla Foods UK plc and BPP Holdings plc.

# BOARD OF DIRECTORS

7



**SENIOR INDEPENDENT  
NON-EXECUTIVE DIRECTOR  
MENNO RICHARDS**

APPOINTED NON-EXECUTIVE  
DIRECTOR: NOVEMBER 2010  
IN POST SINCE: JULY 2014

COMMITTEE MEMBERSHIP:



#### Responsibilities

See summary on page 115.

Menno is also a Member, representing the Board of Directors, of the independent Member Selection Panel, which recommends the appointment of Members to the Board.

#### Skills and Experience

Menno's executive career was in broadcasting as Director BBC Cymru Wales (2000–2011) and previously as Managing Director, HTV Wales.

#### Current other

Chair of the ALOUD charity, Vice President of the Royal Welsh College of Music and Drama.

**Previous Non-Executive positions**  
Chair of Governors of the Royal Welsh College of Music and Drama. Board member of the Cardiff Bay Development Corporation and Non-Executive Director of the Principality Building Society and of Welsh National Opera.

Menno retires from the Board at the conclusion of the AGM on 3 July 2020.

8



**NON-EXECUTIVE DIRECTOR  
ANNA WALKER CB**

IN POST SINCE:  
MARCH 2011

COMMITTEE MEMBERSHIP:



#### Responsibilities

See summary on page 115.

Anna is also Chair of the Remuneration Committee, a role she has performed for more than 12 months.

#### Skills and Experience

Anna has a wealth of experience in regulation, customer service, policy making and working with governments. Anna undertook an independent review for government in 2008 into household water charging. Former roles include Chief Executive of the Healthcare Commission (2004–2009), Director General, Land Use and Rural Affairs at DEFRA, Director General, Energy Group at DTI, and Deputy Director General of Ofel, the telecoms sector regulator.

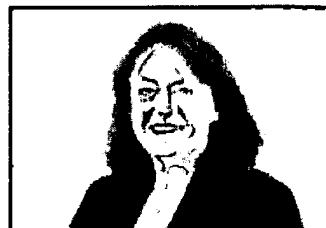
#### Current other

**Non-Executive positions**  
Anna, who was awarded a CB in 2003 for public service, is a member of the Competition Appeal Tribunal, a Non-Executive Director for South London and the Maudsley NHS Foundation Trust and Chair of St. George's Hospital Charity.

**Previous Non-Executive positions**  
Chair of the Office of Rail Regulation from 2009–2015 and a former Deputy Chair of the Council of Which? and Vice Chair of Consumer Focus, the statutory consumer champion body.

Anna retires from the Board at the conclusion of the AGM on 3 July 2020.

9



**NON-EXECUTIVE DIRECTOR  
DEBRA BOWEN REES**

IN POST SINCE:  
JANUARY 2020

COMMITTEE MEMBERSHIP:



#### Responsibilities

See summary on page 115.

#### Skills and Experience

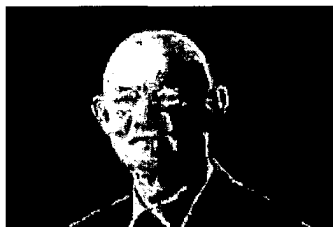
Debra, the Chief Executive of Cardiff Airport, has a wealth of experience in leadership and management, including managing safety-critical, regulated infrastructure. After a successful career and a number of senior positions in the Royal Air Force, Debra joined Cardiff Airport in 2012 as Operations Director,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

#### Current other

**Non-Executive positions**  
Board Member for the Airport Operators Association, Vice Chair of the Regional and Business Airports Group, Council Member at CBI Cymru and Trustee and Board Member at Hijinx Theatre Company.

Committee key **A** Audit **F** Finance **N** Nominations **R** Remuneration **Q** Quality and Environment **T** Technology

10



NON-EXECUTIVE DIRECTOR  
GRAHAM EDWARDS

IN POST SINCE:  
OCTOBER 2013

COMMITTEE MEMBERSHIP:

**A** **Q** CHAIR

#### Responsibilities

See summary on page 115.

Graham is also Chair of the Quality and Environment Committee.

#### Skills and Experience

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

#### Current other

##### Non-Executive positions

Board member of the University of South Wales.

##### Previous Non-Executive positions

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

11



NON-EXECUTIVE DIRECTOR  
JOANNE KENRICK

IN POST SINCE:  
NOVEMBER 2015

COMMITTEE MEMBERSHIP:

**A** **R** **T**

#### Responsibilities

See summary on page 115.

#### Skills and Experience

Joanne was the Marketing Director for Homebase until the end of 2015. Prior to that, Joanne was CEO of Start, setting up and running HRH the Prince of Wales' public-facing initiative for a more sustainable future. Former roles include Marketing and Customer Proposition Director for B&Q, Marketing Director for the National Lottery, and Group Sales and Marketing Director at Wilson Connolly. 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 ever trained to fly by the RAF.

#### Current other

##### Non-Executive positions

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

##### Previous Non-Executive positions

Non-Executive Director at Principality Building Society for seven years and, more recently a Non-Executive Director of BACS Payment Services Limited.

# CORPORATE GOVERNANCE REPORT

**At Glas Cymru, we view corporate governance as a core discipline which generates value for our stakeholders and allows us to deliver an essential public service.**

Our governance processes are based on transparency and fairness, underpinning the values of the Group and the Company purpose.

We apply the principles set out in the UK Corporate Governance Code and Ofwat's Leadership, Transparency and Governance Principles as required by our Licence from Ofwat which was amended in 2019 to include an obligation to comply with these Principles.

## HOW WE MEET THE PROVISIONS OF THE UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2018 (the "Code") is the standard against which we measure our governance practices at Glas Cymru in 2020. The Code is available to download at [frc.org.uk](http://frc.org.uk)

The Code was applicable during the year under review, and we have applied the principles and complied with the provisions of the Code except for part of provision 41 that relates to engagement with the workforce to explain alignment of Executive remuneration with wider Company pay policy.

Employees are not specifically consulted on Executive remuneration, however, all employees are encouraged to participate in our annual staff survey, which provides valuable insight to the Board on a range of topics, including compensation. Relevant feedback is shared with the Remuneration Committee. In addition, Employee Engagement sessions with both the Executive Team and Non-Executive Directors provide a regular forum for employee queries to be discussed, by way of elected representatives. The Chair of the Remuneration Committee attends at least annually such an Employee Engagement session providing an opportunity for the elected representatives to raise questions and issues with regard to remuneration.

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



### BOARD LEADERSHIP AND COMPANY PURPOSE

> SEE PAGES 110 TO 111



### DIVISION OF RESPONSIBILITIES

> SEE PAGES 114 TO 115



### COMPOSITION, SUCCESSION AND EVALUATION

> SEE PAGES 116 TO 119



### AUDIT, RISK AND INTERNAL CONTROL

> SEE PAGES 123 TO 126



### REMUNERATION

> SEE PAGES 129 TO 153



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

We are committed to meeting our obligations under Ofwat's Guidance on Board Leadership, Transparency and Governance as updated in 2019 and as required by our Licence conditions. During the financial year to 31 March 2020, we consider that we have met all four of the Objectives as follows:

1. **Purpose, Values and Culture** – "The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflects the needs of all those it serves." – Please see pages 26 to 29 for details of our Company Purpose and page 111 of this Governance Report for details of the Vision and Culture that underpin decision making and are monitored by the Board. The Company Direction and Performance Statement sets out how the Company has set its aspirations and performed for all those it serves (please see our Annual Performance Report, available on our website: [www.dwrcymru.com/AR2020-APR](http://www.dwrcymru.com/AR2020-APR)).
2. **Standalone Regulated Company** – "The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term." – We have an identical Board of Directors for our holding company, Glas Cymru Holdings Cyf., and for our regulated Company, Dŵr Cymru Cyf. There is an identity of interests between the two companies because our focus is on providing essential services to our customers at the lowest possible cost. This Governance Report sets out in detail the role of the Board and those matters delegated to Committees, all of which report into the Board of the regulated Company.
3. **Board Leadership and Transparency** – "The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions." We publish the following information in this Report: – explanation of group structure (see inside back cover); – explanation of dividend policy (page 67); explanation of principal risks (page 72); details of Board and Committee Membership, meetings, attendance (page 116); and close up explanation of executive pay policy (pages 142 to 145).
4. **Board Structure and Effectiveness** – "The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs." Please see page 122 for our analysis of the balance of skills, independence and knowledge of the company on our Board, which has a majority of Non-Executive Directors, and page 116 for the membership of our key Board Committees. Information about the independence and objectiveness of our Directors can be found on page 117 and the conclusions of our external Board Effectiveness review carried out in 2019-20 can be found on pages 118 and 119.

# CORPORATE GOVERNANCE REPORT



## BOARD LEADERSHIP AND COMPANY PURPOSE

### HOW WE APPLY THE PRINCIPLES OF THE CODE

- We are headed by an efficient and values-driven board, which promote the long-term sustainable success of the company, generating value and contributing to wider society.
- The Board has established the Company's purpose, values and strategy and is satisfied that these and our culture are aligned. Our Directors act with integrity, lead by example and always seek to promote the desired culture.
- The Board ensures that the necessary resources are in place for the Company to meet its objectives and measure performance against them. It has also established a framework of prudent and effective controls, which enable risk to be assessed and managed.
- In order to meet its responsibilities to our customers and other stakeholders, the Board ensures there is effective engagement with, and encourages, participation from them.
- The Board ensures that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. Colleagues can raise any matters of concern through their elected representatives' quarterly sessions with the Non-Executive Directors or, confidentially, via a whistleblowing line.

### THE BOARD

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

The Board is responsible for organising and directing the affairs of the Group in a manner that generates and preserves value over the long-term. Through the strong governance framework that it has in place, the Board can deliver its strategy of providing strong and sustainable financial and operational performance. The Board is also accountable for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met; and for ensuring that it operates within appropriately established risk parameters.

The Board sets the strategy of the Group based on proposals formulated by the Executive team and it reviews the progress

achieved by the management of the business in meeting the agreed strategic objectives. The Board's long-term goals for the Company, in the context of future challenges and changing customer expectations, are set out in our published strategy document, Welsh Water 2050. Brief details of the strategy are set out in the Strategic Report of this Annual Report and Accounts (see page 34). The Board is mindful of its role as custodian of a long-term business, with an obligation to ensure that the next generation receives the assets it needs to deliver the Company's Purpose.

### SUMMARY OF THE BOARD'S AREAS OF FOCUS IN 2019-20

During 2019-20 the Board has covered the following business in Board meetings:

- approving the Company Purpose being incorporated into the Company's Articles of Association;
- approving the business plan and submission as part of the Ofwat Price Review 2019 and the acceptance of Ofwat's Final Determination;
- approving the Company's 2019-20 Scheme of Charges;

- reviewing performance against key performance indicators and compliance with regulatory requirements;
- oversight of operational performance and the company's response to extreme weather events;
- reviewing risk management processes and discussing and agreeing mitigation strategies, for the principal and emerging risks across the business;
- reviewing succession for senior management roles, in particular the appointment of the new CEO and CFO, and a new Non-Executive Director;
- reviewing the Company's strategy to support vulnerable customers;
- reviewing the progress of innovation across all aspects of the business;
- reviewing progress against the capital investment plan;
- considering the Company's Digital Strategy;
- approving the business plan for 2020-21.

As we provide a vital public service, we understand that how we are governed is crucial to earning the trust of our customers. It is our vision to Earn the Trust of our Customers Every Day.

## OUR PURPOSE, VISION, VALUES AND CULTURE

Our vision is to Earn the Trust of our Customers Every Day, and Welsh Water's Purpose is to provide high-quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come. Our culture is focused on achieving these two aims and this underpins all the decisions taken by the Board based on our Company values of honesty, transparency and excellence in everything we do.

## RELATIONS WITH OUR STAKEHOLDERS

The Board is accountable to a wide range of key stakeholders including the Glas Members, our investors, customers, colleagues, suppliers, partners and regulators and its judgements and processes are subject to review by its auditors, KPMG and the Company Reporter, Jacobs.

How we consider and respond to the interests of our stakeholders, and how our Board engages with them is set out in the table on pages 20 to 23 in the Strategic Report, and the Directors' formal statement under Section 172 of the Companies Act 2006 is set out on pages 24 and 25 evidencing their understanding of their individual duty to promote the success of the Company for the benefit of all stakeholders.

Below, are some examples of this engagement in action, which the Board keeps under review to ensure that the methods of engagement remain effective.

### WORKFORCE ENGAGEMENT

Our culture is reinforced by direct engagement of the Executive team and Board members with colleagues across the business:

- the Chair of the Board and Non-Executive Directors undertake regular operational site visits and meet teams across the business for informal meetings and lunches/dinners;

- the Chief Executive and members of the Executive team hold monthly telephone conference calls that all colleagues can join to hear updates on business performance and key developments and to ask questions;
- we have an annual Leadership Conference which provides an opportunity for senior managers to consider in detail, and provide feedback on our business plan;
- regular employee "roadshows";
- site visits by members of the Executive team, with a particular focus on Health and Safety issues, are held quarterly across the business;
- "Employee Engagement Champions" work with the business to respond to local feedback given in the annual Employee Engagement Survey – various of our Non-Executive Directors meet with them quarterly;
- our Code of Conduct sets out our focus on "doing the right thing" to Earn the Trust of our Customers and includes reference to our Whistleblowing Policy, which is widely publicised among our colleagues and key contractors and provides an opportunity for colleagues to "speak up" on any issues of concern. All colleagues are trained in our Code of Conduct on joining the Company and complete refresher training periodically.



# CORPORATE GOVERNANCE REPORT



## BOARD LEADERSHIP AND COMPANY PURPOSE

Below are some examples of the interaction by Board members with colleagues during the year:

| DATE             | EVENT                                                                                                                                               | BOARD ATTENDEE                                                       | VENUE                                        |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------|
| 1 May 2019       | Lunch presentation to QEC on flood risk to Cardiff West and planned work at the Cardiff West Pumping Station                                        | All Board members                                                    | Operational Call Centre, St Mellons, Cardiff |
| 5 June 2019      | Board Lunch with Senior Managers                                                                                                                    | All Board members                                                    | Ty Awen, Newport                             |
| 10 June 2019     | Site Visit Dinner with local managers (West Wales)                                                                                                  | Alastair Lyons<br>Menna Richards                                     | Narberth                                     |
| 21 August 2019   | Site Visit Dinner with local managers (Mid-Wales)                                                                                                   | Alastair Lyons<br>Jo Kenrick                                         | Abergele                                     |
| 3 September 2019 | NEBOSH H&S Leadership Training                                                                                                                      | All Board Members                                                    | Cardiff                                      |
| 5 September 2019 | Board Lunch with Senior Managers                                                                                                                    | All Board Members                                                    | Cardiff                                      |
| 15 October 2019  | Site Visit Dinner with local managers (South Wales)                                                                                                 | Alastair Lyons<br>Menna Richards<br>John Warren                      | Cardiff Bay                                  |
| 6 November 2019  | Innovation Presentation over lunch                                                                                                                  | All Board members                                                    | Operational Call Centre, St Mellons, Cardiff |
| 10 December 2019 | Employee Engagement Session with local employee engagement champions, to discuss local issues and opportunities to engage "agile" working practices | Menna Richards<br>John Warren                                        | Cardiff Wastewater Treatment Works           |
| 11 December 2019 | Site Visit Dinner with local managers (South Wales)                                                                                                 | Alastair Lyons                                                       | Cardiff Bay                                  |
| 30 January 2020  | Board Lunch with Senior Managers                                                                                                                    | All Board members                                                    | Linea                                        |
| 11 February 2020 | Employee Engagement Session – meeting with local engagement champions to discuss local issues raised through annual Employee Engagement Survey      | Alastair Lyons<br>Anna Walker<br>Debra Bowen<br>Rees                 | Clydach Depot                                |
|                  | Site Visit Dinner with local managers                                                                                                               | Alastair Lyons<br>Anna Walker<br>Debra Bowen<br>Rees                 | Cardiff Bay                                  |
| 3 March 2020     | Launch of Welsh Water's Wellbeing Commitments                                                                                                       | Debra Bowen<br>Rees<br>Tom Crick<br>Joanne Kenrick<br>Menna Richards | The Senedd, Cardiff Bay                      |

Other visits and meetings which had been planned for the end of the year 2019–20 were postponed to later in the year as a result of the COVID-19 restrictions.

## OUR MEMBERS AND INVESTORS

- We apply the listed company Combined Code principles on governance to our Members and (Bond) Investors.
- We have regular dialogue with our Members and Investors.
- Our Board uses regular general meetings to communicate with Members.
- The Company's Treasury team ensures that our Investors are well informed, through quarterly Investor Reports, approved by the Board, and the annual Investor meeting in London, as well as regular informal meetings. The Board receives a report following meetings with Investors and, where appropriate, takes into account the views expressed by Investors on issues affecting the Company in its decision-making.
- Our Group Treasurer arranges to meet with Investors as required or when requested. This year the following meetings were made available to all Investors and potential Investors:
  - Annual Investor update held on 10 July 2019.
  - Roadshows held in advance of the launch of our Bond issue on 25 February 2020. More details on the Bond issue are on page 66.

As a Group owned by a company limited by guarantee, we do not have shareholders, but our Membership is made up of individuals drawn from across our supply area (or who have a strong connection with it) who carry out a vital governance role. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board

to account for the stewardship of our assets and for providing an essential public service in a manner which will be sustainable for future generations.

Our 52 Glas Members are appointed by the Board but are selected by an independent Member Selection Panel which aims to maintain the Members as a balanced and diverse group, broadly reflective of the range of our customer and other key stakeholders' interests. The independent Chair of the Member Selection Panel is Sir Paul Silk, and the other members of the Panel during the year were Menna Richards (a Non-Executive Director with particular responsibility for Members) and Arthur Walford (former Company Secretary of Bupa Plc).

The Company Secretariat maintains a regular dialogue with Glas Members, in addition to the regular meetings and events referred to above. For example, our Members are sent fortnightly press coverage and up to the minute progress updates on operational events affecting the business including this year updates on Storms Ciara and Dennis and the COVID-19 pandemic. Members are invited to join a LinkedIn group specific to our membership as another way to receive updates and to communicate with other Members.

Members are invited to our AGM and a second Members' meeting each year at both of which the Executive team present an update on the Group's performance and strategy. In 2019–20, our AGM was held in Chester on 5 July, and our December Members' meeting was held in Llonelli. We also hold two quarterly regional Members' meetings each year which are held at various locations across our supply area, providing a more

informal opportunity to gain insight into our working sites and to meet local teams. Members are also invited to other meetings and workshops on an ad hoc basis throughout the year, and in 2019–20 this included our annual Innovation Conference, and a presentation at the Senedd to mark the launch of our Wellbeing Commitments. The Members' regional meeting in September took place at Gowerton Wastewater Treatment Works and included a tour of the site to see the Peak Flow Equivalent Treatment being installed, which will treat storm water at the works in response to higher intensity storms, as part of our programme of work to reduce the impact of our Water Treatment Works on the Loughor Estuary.

During 2019–20, 20 Members retired, three Members stepped down and 17 new Glas Members were appointed following an advertised (via social media) and open recruitment process. On appointment, new members are invited to a full day's induction held at one of our operational sites.

This year's Investor Meeting will be held on 16 July 2020.

## RELATIONS WITH OTHER KEY STAKEHOLDERS

Further information on how we engage with our key stakeholders is set out within the Strategic Report on page 20 to 23.

# CORPORATE GOVERNANCE REPORT



## DIVISION OF RESPONSIBILITIES

### HOW WE APPLY THE PRINCIPLES OF THE CODE

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

## ROLES AND RESPONSIBILITIES

### THE BOARD MEMBERS

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

The Board has collective responsibility for:

- setting the strategy, and ensuring the long-term success of the Group for the benefit of its customers and stakeholders;
- challenging, encouraging and monitoring performance of the Executive team against the strategic objectives;
- ensuring adequate financial and human resources to achieve the Group's objectives;

- overseeing and ensuring the Group's compliance with statutory and regulatory requirements;
- overseeing major capital investment projects; and
- setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.

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

The Board has delegated detailed consideration of certain responsibilities to Board Committees, while retaining overall responsibility for decision-making in these areas. There are regular meetings of the Audit, Nomination, Quality and Environment, Remuneration and Technology Committees. The Finance Committee meets or conducts business via email communications or by telephone on an ad hoc basis. A description of the work of these Committees is set out on pages 120 to 153.

All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee which is chaired by the Chair of the Board and comprised of a majority of independent Non-Executive Directors. Appointments to the Committees are made on the recommendation of the Nomination Committee and are for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent. The Committees are constituted with written Terms of Reference that are reviewed annually to ensure that they remain appropriate and reflect any changes in best practice and governance.

These Terms of Reference and Matters Reserved for the Board are available on request from the Company Secretary and can also be found on the Company's website [dwcymru.com/AR2020-board](http://dwcymru.com/AR2020-board)

**CHAIR**

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

**SENIOR INDEPENDENT DIRECTOR**

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

**NON-EXECUTIVE DIRECTORS**

- challenge the Executive Directors constructively and monitor the delivery of the Board's agreed strategy within the risk and control framework set by the Board.
- are involved in mentoring and supporting members of the Executive team and senior managers across the business.
- take an active interest in operational issues affecting the business (see page 112 for details of site visits undertaken by Non-Executive Directors during 2019-20).

**CHIEF EXECUTIVE**

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

**EXECUTIVE TEAM**

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

**COMPANY SECRETARY**

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

**MEMBERS**

As a Group owned by a company limited by guarantee, we do not have shareholders, but our Membership is made up of individuals drawn from across our supply area (or who have a strong connection with it) who carry out a vital governance role. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of our assets and for providing an essential public service in a manner which will be sustainable for future generations. For more information see page 113.

# CORPORATE GOVERNANCE REPORT



## DIVISION OF RESPONSIBILITIES

### EXTERNAL APPOINTMENTS OF THE EXECUTIVE DIRECTORS

Chris Jones, who remained a Director on the Board until 15 May 2020, is Deputy Chairman of the Prince's Trust Cymru Advisory Council. No other Executive Director currently holds an external appointment.

### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2019-20

Thirteen scheduled Board meetings (including additional meetings relating to PR19) took place during the year (2018-19: 11). Further calls took place in order to update the Board on the Company's response to the COVID-19 situation. The table below shows the actual number of meetings attended and the maximum number of meetings which the Directors could have attended. Every effort is made by the Directors to attend all meetings.

The Board also meet for dinner around their face-to-face meetings, which helps to build relationships on a personal level, and leads to better decision-making.

| Director                       | Board | QEC | Audit | Remuneration | Nomination | Finance | Technology |
|--------------------------------|-------|-----|-------|--------------|------------|---------|------------|
| Chris Jones                    | 13/13 | 6/6 | 4/5   | -            | 3/3        | 1/1     | 3/3        |
| Peter Perry                    | 12/13 | 6/6 | -     | -            | -          | -       | 3/3        |
| Peter Bridgewater <sup>1</sup> | 8/13  | -   | 4/5   | -            | -          | 1/1     | 3/3        |
| Mike Davis <sup>2</sup>        | 3/13  | -   | 1/5   | -            | -          | 0/1     | 0/3        |
| Alastair Lyons                 | 13/13 | 6/6 | -     | 6/6          | 3/3        | 1/1     | 3/3        |
| Menna Richards <sup>3</sup>    | 13/13 | 4/6 | -     | 2/6          | 3/3        | -       | -          |
| Debra Bowen Rees <sup>4</sup>  | 2/13  | 2/6 | -     | -            | -          | -       | -          |
| Tom Crick                      | 13/13 | 6/6 | -     | -            | -          | -       | 3/3        |
| Graham Edwards                 | 13/13 | 6/6 | 5/5   | -            | 3/3        | -       | -          |
| Joanne Kenrick <sup>5</sup>    | 13/13 | 2/6 | 5/5   | 4/6          | -          | -       | 3/3        |
| Anna Walker                    | 11/13 | -   | 5/5   | 5/6          | -          | -       | -          |
| John Warren                    | 13/13 | -   | 5/5   | 6/6          | -          | 1/1     | 3/3        |

1. Peter Bridgewater left the business on 31 December 2019
2. Mike Davis was appointed an Executive Director on 1 January 2020
3. Menna Richards joined the Quality and Environment Committee in September 2019 (previously a member of the Remuneration Committee)
4. Debra Bowen Rees was appointed a Non-Executive Director on 1 January 2020
5. Joanne Kenrick joined the Remuneration Committee in September 2019 (previously a member of the Quality and Environment Committee)

### EFFECTIVENESS

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

### INDUCTION

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

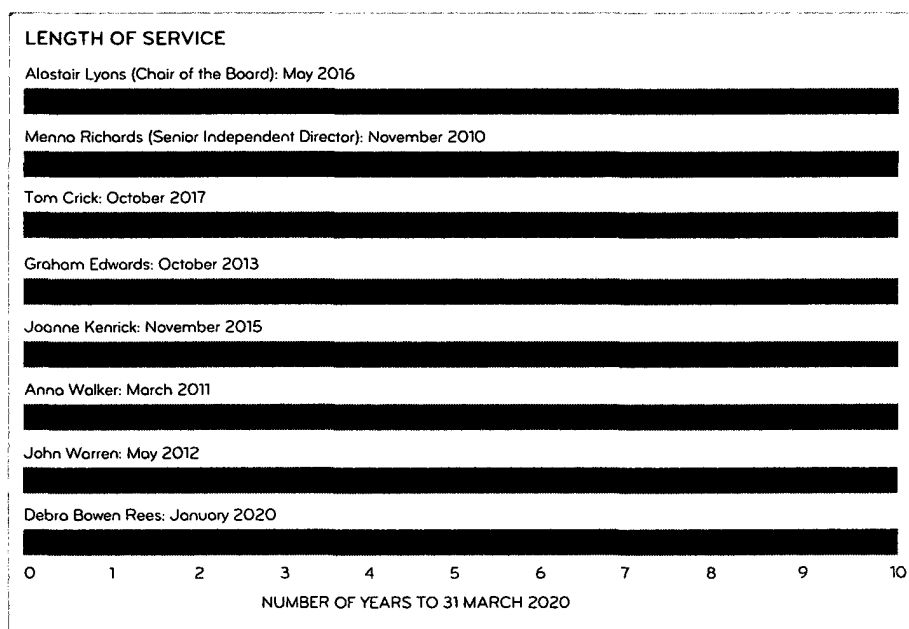
During the year, an induction programme commenced for Debra Bowen Rees who joined the Board on 1 January 2020.

## NON EXECUTIVE DIRECTORS - TERM AND RE-ELECTION

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

Menna Richards and Anna Walker, both Non-Executive Directors, are due to retire this year having completed nine years as Directors: They will both step down at the conclusion of the AGM on 3 July 2020 and, accordingly, will not be offering themselves for re-election as a Director.

Glas Members will be asked to approve the elections of Mike Davis and Debra Bowen Rees as Directors of the Company at the AGM, being the first AGM following their appointment on 1 January 2020.



## INDEPENDENCE

We consider the independence of our Non-Executive Directors on an ongoing basis and formally on an annual basis. All of our Non-Executive Directors are deemed to be independent in accordance with the UK Corporate Governance Code and free from any relationship which would compromise their independent judgement.

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

## CONFLICTS OF INTEREST

Our Articles contain provisions enabling non-conflicted Directors to authorise conflict situations. Each Director is required to notify the Company Secretary of any potential issues of conflict which may arise.

# CORPORATE GOVERNANCE REPORT



## COMPOSITION, SUCCESSION AND EVALUATION

### HOW WE APPLY THE PRINCIPLES OF THE CODE

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

### BOARD EVALUATION

Having last carried out an external Board evaluation in 2016–17, and in accordance with the Code requirement that companies should carry out an externally facilitated evaluation of the Board at least every three years, this year there was a further external Board evaluation process led by Ian White. Ian is an independent external consultant with experience of evaluating and making recommendations to enhance Board effectiveness. Other than having provided board evaluation services to a company of which the Chair of the Board is also Chairman, Ian has no connection with the Company or any of the Board Directors.

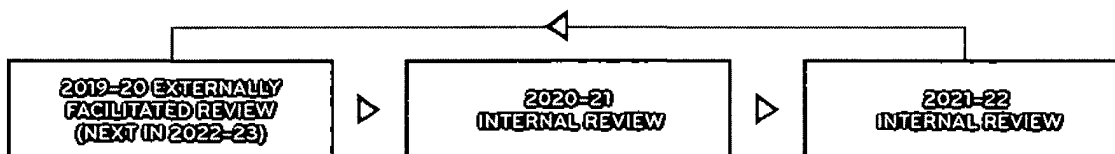
The focus of the independent evaluation was on the effectiveness of the Board and Committees and, where relevant, to make proposals for enhancements. Matters considered included: the dynamics, behaviour and culture including relationships around the Board table; the Board's decision-making and strategic approach; the process for Board Succession; together with individual feedback to the Chair and Committee Chairs on their particular roles.

The evaluation process was initiated by all Board members and other regular Board attendees, completing an online questionnaire.

The results of the questionnaire were then discussed by each respondent in one-to-one interviews with Ian. Particular areas of focus that came out of the results of the questionnaire were discussed together with an assessment of progress since the previous reviews and any material matters identified in the individual questionnaire results. Ian also met a selection of employees to ask about their views on the Board.

As part of the evaluation process, Ian also had access to the papers for and attended, as an observer, one Group Board meeting and a meeting of each of the Audit Committee and Quality and Environment Committee held in January in order to assess, at first hand, the dynamics and effectiveness of these meetings.

### BOARD EVALUATION CYCLE



Ian presented the results of the review to the Board in March 2020 and the Board discussed the specific recommendations that had been proposed to enhance the Board's effectiveness. The Board agreed that good progress had been made in implementing the recommendations identified in the internal evaluation carried out in 2019, which included:

- involving external speakers to facilitate discussion at some Board meetings
- reviewing agendas for Meetings to identify areas for improvement
- asking key questions about the effectiveness of each meeting and its conclusion
- identifying opportunities for additional Board engagement with the workforce.

**KEY RECOMMENDATIONS IN THE 2019-20 BOARD EVALUATION**

| <b>Recommendation</b>                                                                                                                                     | <b>Agreed Actions 2020-21</b>                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Board succession planning and number of Non-Executive Directors should be kept under review                                                           | Nomination Committee to keep under review Committee membership and overall number of Non-Executive Directors                                                               |
| Diversity in its widest sense should be kept under review                                                                                                 | Nomination Committee to consider in context of action (1) above                                                                                                            |
| The Board could over the next year or so review its mandate and Directors could discuss how they best work with and support each other                    | Covered in Board discussion with the Executive Team in March – further discussion is scheduled for September 2020                                                          |
| The Board should review the effectiveness of its decision-making by examining the merits of major decisions taken in the past                             | Board to identify decisions which should be revisited within a particular timescale                                                                                        |
| Attendees who are not Directors should be reminded that they can have an equal voice at Board meetings                                                    | Issues addressed at March Board/ dinner with Executive Team and to form part of future training/preparation for Board attendance                                           |
| Further steps should be taken for Board members to gain exposure to employees at all levels of the business                                               | Further opportunities for informal engagement to be identified, including walking around offices/depots and interacting with teams at different levels of the organisation |
| The duration of meetings should be kept under review                                                                                                      | Monitor length of agendas and meeting time and consider whether there are matters the Board does not need to deal with, noting that meetings are already quite lengthy     |
| The Board should review draft agendas and reflect on the appropriateness of matters that are proposed to be brought to meetings and their level of detail | Company Secretary to work with the Chair to review draft agendas and to review templates for Board papers                                                                  |
| Risk management should remain high on the Board agenda, including analysis of asset and infrastructure risk and stress testing of scenario planning       | Focus and process for AMP7 risk management was discussed at the April 2020 Board Meeting and should be added to the Forward Schedule, as appropriate                       |

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

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

**DEVELOPMENT: UNDERSTANDING THE OPERATIONAL BUSINESS**

As part of the ongoing development of our Directors, the Company Secretary ensures that developments in legislation, corporate governance and reporting are brought to the attention of the Board and its Committees as appropriate. Regular attendance from our auditors, KPMG, at meetings of the Audit Committee means that Directors are kept up to date on current developments in governance, including the changes following the publication of the 2018 UK Corporate Governance Code. This year has seen a sustained focus on the regulatory PR19 price review process, with attendance at the Board by both external consultants and Peter Davies CBE, the Chair of our Customer Challenge Group.

The Chair of the Board and Non-Executive Directors undertook a number of site visits during the year to clean and wastewater treatment works, catchments, reservoirs and the customer service centre.

# CORPORATE GOVERNANCE REPORT



## COMPOSITION, SUCCESSION AND EVALUATION

### NOMINATION COMMITTEE REPORT

"SUCCESSION  
PLANNING  
AND DIVERSITY  
REMAIN KEY  
AREAS OF  
OUR FOCUS."

**Alastair Lyons CBE**  
Chair of the Nomination  
Committee



#### FOCUS AREAS IN 2019-20

- Considering the composition of the Board and number of Non-Executive Directors and the balance of skills, background and experience on the Board
- Planning for the retirement of Menna Richards and Anna Walker who are due to retire from the Board in July 2020
- Overseeing the transition to the new Chief Executive Officer, Peter Perry, from 1 April 2020, in accordance with the established succession plan for the role
- Managing the recruitment process for a new Non-Executive Director, Debra Bowen Rees, who took up her role in January 2020
- Considering the ongoing membership of Board Committees
- Reviewing the progress towards meeting the Board's diversity goals in the context of succession planning for the Board

#### MEMBERSHIP AND MEETING ATTENDANCE

| Member                 | Attendance 2019-20 |
|------------------------|--------------------|
| Alastair Lyons (Chair) | 3/3                |
| Graham Edwards         | 3/3                |
| Menna Richards         | 3/3                |
| Chris Jones            | 3/3                |

The Company Secretary acts as Secretary of the Committee. By invitation of the Committee Chair other individuals such as the People and Change Director, other senior managers or external advisers may be invited to attend for all or part of any meeting, as and when appropriate. In the absence of the Committee Chair, and when the Committee is dealing with the matter of succession to the Board Chairmanship, the Senior Independent Director will chair the meeting.

#### PRINCIPAL RESPONSIBILITIES

The Committee meets the Corporate Governance Code requirement for a majority of members of the Committee to be independent Non-Executive Directors. The responsibilities of the Committee are to: ensure that there is a formal, rigorous and transparent procedure for appointments to the Board; lead the process for such appointments and make recommendations to assist the Board in ensuring its composition is regularly reviewed and refreshed, taking into account length of service of the Board as a whole; establish plans for orderly succession to positions on the Board and Committees and maintain oversight over the succession plans developed by the Chief Executive Officer for the Executive Team, both having regard to the Company's diversity objectives; and to work and liaise with other Board Committees, as appropriate, including the Remuneration Committee in respect of any remuneration package to be offered to any new appointee to the Board. The Committee also identifies and nominates for Board approval candidates to fill vacancies on the Independent Members' Selection Panel.

## ACTIVITIES DURING THE YEAR

The areas of the Committee's focus included:

- succession planning for Non-Executive Directors and consideration of order of appointment and retirement of Board Members;
- the decision by Chris Jones to retire as CEO with effect from 31 March 2020, and the appointment of Peter Perry, previous Managing Director, as his successor;
- the decision of Peter Bridgewater to step down from the Board with effect from 31 December 2019 and the appointment of Mike Davis, Strategy and Regulation Director, as Chief Financial Officer and a Director of the Company with effect from 1 January 2020;
- membership of Board Committees concluding that Menna Richards should become a member of the Quality and Environment Committee and Joanne Kenrick a member of the Remuneration Committee in Menna's place while stepping down from the Quality and Environment Committee;
- working with an external recruitment consultant firm to lead the search for a replacement for Menna Richards, who retires as a Director at the conclusion of this year's AGM, and the consequent appointment of Debra Bowen Rees as a Non-Executive Director on 1 January 2020;
- consideration of the recruitment timetable to succeed John Warren as Chair of the Audit Committee in 2021, having regard also to the retirement as a Director of Anna Walker at the conclusion of this year's AGM;



- maintaining oversight of the planning and appointment of members of the Executive Team;
- the annual review of the appropriateness of the Directors of all Group companies.

Other issues relevant to the Committee's agenda which have been discussed with the Chair and at Board Meetings during the year include:

- the ongoing independence of the Non-Executive Directors;
- the attendance record of individual Directors and whether they have any capacity issues given current other commitments;
- the talent management reviews for the Executive team and senior management;
- the diversity of the Board and of Glas Members, the Executive team and senior management roles; and
- a review of the effectiveness of the Board and its Committees against their terms of reference, this review being presented to the Board by Ian White, external board evaluator, at its meeting in January. Full details of how our board evaluation was conducted and the outcomes of that review are set out on pages 118 and 119.

## FOCUS FOR 2020

Looking ahead, the focus of the Committee's meetings for the remainder of the calendar year will be to progress the recruitment of a successor to John Warren who is due to retire as a Non-Executive Director and Audit Committee Chair at the conclusion of next year's AGM having regard also to the retirement of Anna Walker as a Non-Executive Director and Remuneration Committee Chair at the conclusion of this year's AGM. The Committee will also, therefore, make recommendations to the Board on the appointment of a successor to Menna Richards as Senior Independent Director and to Anna Walker as Remuneration Committee Chair.

## BOARD APPOINTMENTS

The Committee leads the process for making appointments to the Board. The process with regard to Board appointments involves the Committee developing an appropriate specification that identifies the required skills and experience for the role and, in most instances, engaging external recruitment consultants, to lead the recruitment process and to identify suitable candidates. Interviews of the shortlisted candidates are held with the Chair and members of the Committee.

# CORPORATE GOVERNANCE REPORT



## COMPOSITION, SUCCESSION AND EVALUATION

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

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

During the year, this appointment process was followed in respect of the recruitment of Debra Bowen Rees for which the Committee engaged Executive Search Consultants, Goodson Thomas. This firm has no other connection with the Company.

### BOARD SKILLS AND EXPERIENCE

In the opinion of the Nomination Committee, the Board currently benefits from the diverse range of skills and experience of our Non-Executive Directors. In addition to chairing or being a member of a Committee of the Board, each Non-Executive Director commits additional time to the Company, in relation to the following areas:

#### ALASTAIR LYONS

Close support to Executive Directors, drawing on his extensive commercial experience in large customer-facing and operationally complex businesses.

#### MENNA RICHARDS

Communications, diversity and Member relations.

#### DEBRA BOWEN REES

Management of safety-critical, regulated infrastructure, communications and transformational change.

#### TOM CRICK

Data science and technology project support, education and Welsh Government policy.

#### GRAHAM EDWARDS

Operational, regulatory and HR issues.

#### JOANNE KENRICK

Marketing, commercial and customer service.

#### ANNA WALKER

Customer service, regulation and remuneration policy.

#### JOHN WARREN

Finance, governance and audit.

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

### DIVERSITY

At the financial year end, 36% of our Board and 37% of our Executive team are women, while in the wider workforce, of those senior managers reporting directly to a member of the Executive team, 36% (2019: 42.5%) are women. We recognise that the percentage of women on our Board will have fallen to 22% when Menno Richards and

Anna Walker retire from the Board and we will be mindful of this as we recruit additional members to the Board.

We continue to support the recommendations proposed by the Hampton-Alexander Review which encourages companies to increase the percentage of women on boards and leadership teams (comprising the executive committee and direct reports to members of the executive committee) to 33% by the end of 2020 and of the Parker Review which focuses on increasing the ethnic diversity of boards. While we do not believe it is appropriate to commit to setting any specific targets we are encouraged that we have been able to meet the target set by the Hampton-Alexander Review and will continue our focus on maintaining this.

We are not complacent in the areas where we know we can improve our diversity and inclusion. The Company is committed to providing equal opportunities, eliminating discrimination and encouraging diversity amongst its workforce. Our Board Diversity statement is published on our website at [dwrcymru.com/AR2020-statements-and-the O and the Our Responsibility section \(page 82\) details our plan to continue to improve the diversity of our Board and our workforce to ensure that the individuals working for us are truly representative of the communities that we serve.](http://dwrcymru.com/AR2020-statements-and-the-O-and-the-Our-Responsibility-section-(page-82)-details-our-plan-to-continue-to-improve-the-diversity-of-our-Board-and-our-workforce-to-ensure-that-the-individuals-working-for-us-are-truly-representative-of-the-communities-that-we-serve)

**Alastair Lyons CBE**  
Chair of the Nomination Committee

5 June 2020

# CORPORATE GOVERNANCE REPORT

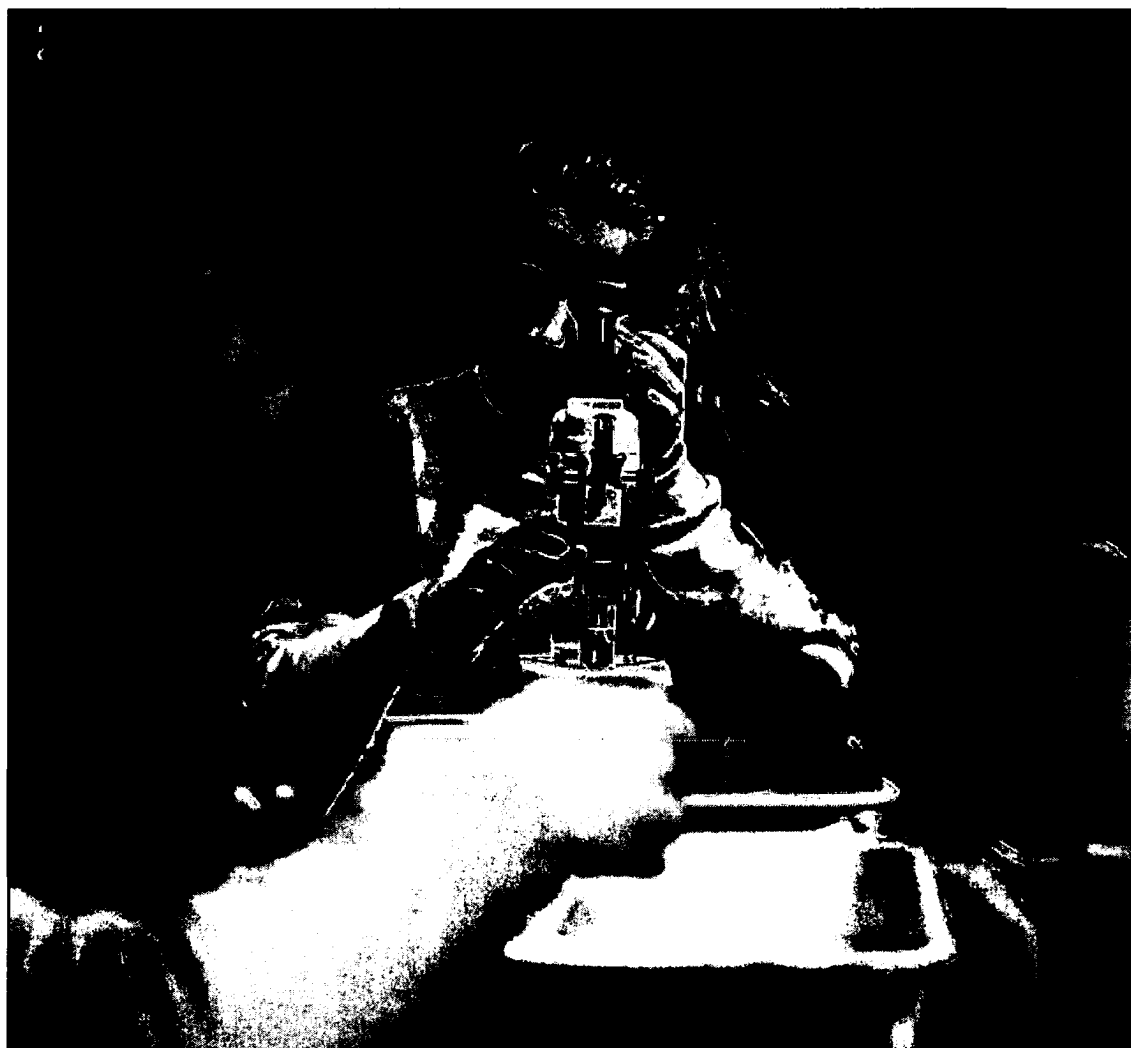


## AUDIT, RISK AND INTERNAL CONTROL

### HOW WE APPLY THE PRINCIPLES OF THE CODE

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

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



# CORPORATE GOVERNANCE REPORT



## AUDIT, RISK AND INTERNAL CONTROL

### AUDIT COMMITTEE REPORT

"LONG-TERM VIABILITY IS BUILT INTO EVERY ASPECT OF OUR RISK MANAGEMENT AND BUSINESS PLANNING PROCESSES."

**John Warren**  
Chair of the Audit Committee



#### FOCUS AREAS IN 2019-20

- Overseeing the operation of the Company's systems of internal controls and assurance
- Receiving reports from the Head of Business Assurance on the outcomes of internal audit investigations and whistleblower investigations
- Receiving regular updates on key compliance areas including data protection, information security, cyber-security, tax and insurance
- Reviewing financial performance in detail at the half year and year end and receiving regular reports from the Group's external auditors, KPMG LLP
- Considering Audit Retender Plans and Audit Partner Rotation
- Reviewing our Bond issuance Prospectus and quarterly Investor Reports
- Monitoring progress towards ISO27001 compliance and Information Management System implementation

#### MEMBERSHIP AND MEETING ATTENDANCE

| Member              | Attendance 2019-20 |
|---------------------|--------------------|
| John Warren (Chair) | 5/5                |
| Graham Edwards      | 5/5                |
| Joanne Kenrick      | 5/5                |
| Anna Walker         | 5/5                |

The Audit Committee is chaired by John Warren, formerly Finance Director for WHSmith and currently also Chair of the Audit Committee at Greencore Group plc, 4imprint Group plc and Bloomsbury Publishing Plc. He is considered by the Board to have recent and relevant financial experience.

All Members of the Committee are independent Non-Executive Directors and the Board is satisfied that the Committee as a whole has sufficient sectoral experience and experience of financial matters.

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

#### PRINCIPAL RESPONSIBILITIES

The Board has delegated responsibility to the Committee to monitor:

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

## ACTIVITIES DURING THE YEAR

The Committee met on five occasions during the year, and following the financial year ended 31 March 2020, the Committee met on a further two occasions as in previous years.

## REGULATORY SUBMISSIONS

During the year, the Committee scrutinised the following key regulatory submissions: Annual Performance Report; Risk and Compliance Statement; Data Assurance Summary, as evidence that the data provided is accurate; Ring-Fencing Certificate; and our Charges Schemes for 2020–21.

## FAIR, BALANCED, UNDERSTANDABLE

The Committee critically reviewed a draft of the Annual Report for 2019–20 in order to ensure that it presented a "fair, balanced and understandable" assessment of the Company's financial status, in accordance with the UK Corporate Governance Code.

## VIABILITY STATEMENT

The Board has assessed the prospects of the Company over a period of at least 12 months as required by the 'Going Concern' statement on page 174. The Board also considered the financial viability of the Group over the next 10 years, which it has deemed to be the most appropriate period to make this assessment, taking into account our next two five-yearly regulatory price reviews. For further details, the Group's 2020 Long-Term Viability Statement is set out on page 78.

## EXTERNAL AUDIT

The Committee is supported by the External Auditors, KPMG LLP.

KPMG presented their audit plan for the 2019–20 financial year to the Committee at the November meeting and have reported on progress against it at subsequent meetings of the Committee. This included a highlight of changes in governance and accounting and tax regulation that will impact on financial reporting including the assessment of IFRS16 regarding the treatment of leases in financial statements.

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

## AUDIT TENDER / AUDIT PARTNER ROTATION

The Group last completed an audit tender in 2015 for the 2015–16 financial year end when, following the completion of a transparent and independent audit tender process, KPMG LLP were recommended to Members as the Group's auditor at the AGM in July 2016 and a resolution passed to that effect. At the time of appointment, the term of the contract with KPMG was for a period of up to five years which was due to come to an end in Autumn 2020. The timing also coincided with the rotation of our existing External Audit Partner, James Ledward. While the Committee had agreed a plan to tender for external audit services in the current financial year, it considered the guidance issued

by the Financial Reporting Council (FRC) on 26 March 2020 in relation to the COVID-19 situation, and decided to defer this plan until next year. With KPMG's agreement, KPMG's contract has been extended for another year. James Ledward and KPMG have agreed that James will continue as our External Audit Partner and not rotate at the end of the 2019–20 financial year as required after a period of five years. This is also in line with the FRC guidance relating to COVID-19.

## NON-AUDIT SERVICES AND FEES

The Committee reviewed and approved its policy on non-audit services in September 2019 and was satisfied that it was aligned with current regulatory guidance. Our policy is that the External Auditors will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy. All non-audit fees paid to External Auditors must be approved by the Committee in advance (or in the event this is not possible, approved by the Committee Chair and Chief Executive Officer then reported to the Committee at the next meeting); and, to comply with the FRC's revisions to the Code, a cap on fees for non-audit work across the Group has been agreed. In any one financial year a 70% cap of the three-year average statutory external audit fee for the whole group will be applicable from the financial year starting 1 April 2020. During the period 2019–20 audit fees for the Group's financial statements totalled £250,000 (2019: £170,000), fees for other audit-related assurance services were £126,000 (2019: £128,000) and fees for other non-audit related services amounted to £104,000 (2019: £150,000). For further details, see note 3 to the Financial Statements on page 187.

# CORPORATE GOVERNANCE REPORT



## AUDIT, RISK AND INTERNAL CONTROL

### INTERNAL AUDIT

The Head of Business Assurance (internal audit) presented his proposed internal audit plan for financial year 2020–21 at the January 2020 meeting of the Committee and has reported regularly on progress against the 2019–20 plan and, in detail, on any audit reports with a less than "satisfactory" outcome. Management responses to unsatisfactory and limited-satisfaction audits are discussed by the Committee and subsequently kept under review to ensure progress is made to remedy control weaknesses. Where there are unsatisfactory audit outcomes the business area is reviewed again by Business Assurance once the remedial action has been completed.

The effectiveness of the internal audit function is continually monitored using a variety of inputs including the Committee's review of the audit reports produced, the Committee's interaction with the Head of Business Assurance, updates at each meeting on progress against the internal audit plan, as well as other periodic quality reporting.

### WHISTLEBLOWING

The Head of Business Assurance also presents a Whistleblowing Report to the Committee in closed session at the end of every meeting, which includes details of any new public interest disclosures made or referred to the Internal Audit function, and the outcomes, and "lessons learned" from the investigation of such allegations.

### INTERNAL CONTROL AND RISK MANAGEMENT

The Committee received regular reports on systems of internal control and risk management, in particular on data protection,

business continuity, disaster recovery and cybersecurity, and on the progress of programmes to improve compliance and internal controls across the business, including compliance with ISO27001 and implementation of an Information Security Management System.

### KEY JUDGEMENTS

During 2019–20 the Committee considered the following specific issues in relation to financial reporting:

- Provision for impairment of receivables – the approach to setting the bad debt charge was reviewed in detail, and the Committee concluded that the current bad debt provision was appropriate.
- Classification of costs between operating expenditure and capital expenditure was reviewed and considered to be appropriate.
- Accuracy of the defined benefit pensions assets and liabilities assumptions – the Committee's review of the assumptions in relation to the discount and inflation rates that applied to the pension valuation, concluded that overall they were within the range of acceptable assumptions.
- Going Concern – the appropriateness of adopting the going concern basis of preparation for the accounts was considered in detail in light of the current uncertainties due to the global spread of the COVID-19 pandemic, and while uncertainty about the immediate outlook has increased sharply, the Committee concluded that the increased risks were not such that they amounted to a material uncertainty that cast significant doubt about the Company's ability to continue as a going concern.

These matters are discussed in more detail in the Auditors' Report on page 158.

### OTHER MATTERS

During the year, the Committee considered certain policies and procedures and approved amendments to them, as appropriate. These included Whistleblowing, Treasury and Taxation policies, Supplier Payment Terms and the Internal Audit Charter.

The Committee received development updates from the Company Secretary on the new 2018 UK Corporate Governance Code requirements. It also reviewed its terms of reference and effectiveness as part of the detailed external Board evaluation conducted during the year. That review concluded that the Committee was working well and continued to perform effectively.

**John Warren**  
Chair of the Audit Committee

5 June 2020

## QUALITY AND ENVIRONMENT COMMITTEE REPORT

"OUR FOCUS  
IS ON  
MONITORING  
IMPROVEMENT  
STRATEGIES."

**Graham Edwards**  
Chair of the Quality and  
Environment Committee



## FOCUS AREAS IN 2019-20

- Closely monitoring Health and Safety key performance indicators on a lead and lagging basis, receiving regular reports on Health and Safety.
- Oversight of the "pipes in dams" capital projects involving a number of reservoirs, and receiving the Annual Dam Safety Report for recommendation to the Board for approval.
- Hearing directly from our key regulators, the Chief Inspector of the DWI and key Directors from NRW, on their priority areas for the Company.
- Reviewing in detail the Company's response to severe weather events.
- Monitoring operational performance against key performance indicators for drinking water and environmental standards.
- Considering the outputs of research into the impact of microplastics.

## MEMBERSHIP AND MEETING ATTENDANCE

| Member                                           | Attendance 2019-20 |
|--------------------------------------------------|--------------------|
| Graham Edwards (Chair)                           | 6/6                |
| Debra Bowen Rees (member since January 2020)     | 2/6                |
| Tom Crick                                        | 6/6                |
| Chris Jones                                      |                    |
| Jo Kenrick (ceased membership in September 2019) | 2/6                |
| Alastair Lyons                                   | 6/6                |
| Peter Perry                                      | 6/6                |
| Menna Richards (member since September 2019)     | 4/6                |

## INDEPENDENT SCIENTIFIC ADVISERS

| Member                    | Attendance 2019-20 |
|---------------------------|--------------------|
| Steve Brown (Environment) | 6/6                |
| Julian Dennis (Water)     | 5/6                |

The Company Secretary acts as Secretary of the Committee. By invitation of the Committee Chair other individuals such as the Managing Directors of Water and Wastewater, Head of Quality Policy and Compliance, the Director of Environment and the Health and Safety Director may be invited to attend for all or part of any meeting, as and when appropriate.

## PRINCIPAL RESPONSIBILITIES

The Board has delegated responsibility to the Committee for reviewing and monitoring the following strategic risk areas in respect of Welsh Water's water and wastewater activities:

- health and safety of colleagues, contractors and the public;
- major incidents;

# CORPORATE GOVERNANCE REPORT



## AUDIT, RISK AND INTERNAL CONTROL

- compliance with environmental regulation;
- meeting operational performance targets and assessing the appropriateness of improvement strategies;
- performance and resilience of strategic assets; and
- public health responsibilities.

The Committee also:

- reviews, monitors and influences the health and safety management plan and its delivery.
- meets with key stakeholders such as the Chief Inspector of DWI and Directors from NRW to receive feedback on performance and possible areas of improvement.
- ensures that Welsh Water fulfils its public health responsibilities and the provision of safe, clean drinking water and wastewater sanitation is in line with all relevant standards.
- ensures the Company has adequate emergency and security arrangements in place in line with relevant statutory guidance such as Critical National Infrastructure (CNI) and Security and Emergency Measures Directive (SEMD) requirements.
- reviews and agrees the Company's non-financial audit programme and receives the findings of audit reports relating to water and wastewater service provision.
- constructively challenges the Executive team to ensure continuous improvement in operational performance and to develop programmes for the "smart" use of data and the adoption of appropriate innovative techniques and new technology to improve the standards of water and waste water performance and to reduce costs.
- reviews the findings of investigations into any water quality, environmental, safety



or customer service failure. Serious Incident Reviews are led by the Chief Executive of Welsh Water, who meets with the relevant Managing Director of Water/Wastewater or the Director of Capital Delivery, as appropriate, to conduct the review and then provides detailed reports on the identified root cause(s), any wider implications of the incident and the action plans to address any ongoing issues. During 2019–20, Serious Incident Reviews were carried out in relation to incidents of non-compliance at Cwmillery and Felindre Water Treatment Works.

### ACTIVITIES DURING THE YEAR

During 2019–20 the Committee's areas of focus have included:

- quarterly and Annual Health and Safety reporting;
- performance reports for Water and Wastewater Services, with reports submitted on bacteriological failures;
- operator Self-Monitoring Strategy;
- reviewing strategies for key areas such as Water Fittings Regulations, Leakage and Cryptosporidium;
- Dam Safety Annual Report;

- coronavirus business continuity plans;
- "Zonal Studies" updates in relation to the mains rehabilitation programme and monitoring performance in relation to customer acceptability in areas where such work has already been carried out;
- update on cryptosporidium risk management and review carried out by Julian Dennis (Independent Scientific Adviser);
- internal audit plan on operational systems and quality in the clean and waste water business units;
- conclusions of the SEMD (Security and Emergency Measures Directive) audit;
- review of its terms of reference and effectiveness as part of the external board evaluation conducted during the year. That review concluded that the Committee was working well and continued to perform effectively.

**Graham Edwards**  
Chair of the Quality and Environment Committee

5 June 2020

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

### HOW WE APPLY THE PRINCIPLES OF THE CODE

- We have a Remuneration Committee whose report is set out in pages 130 to 153. The Committee is responsible for setting the remuneration policy for the Executive Directors and takes account of pay policy across the Company.
- Remuneration is designed to promote the long-term success of the Company – it is aligned with the Company's purpose and values and is linked to the successful delivery of the Company's strategy.
- Performance-related elements are transparent, stretching and rigorously applied.
- There is a formal and transparent procedure for developing policy on Executive remuneration of individual Directors. The Glas Members approve the policy which sets the framework within which the Committee takes decisions on remuneration.
- Directors exercise independent judgement and discretion when authorising remuneration outcomes. No Director is involved in deciding his or her own remuneration.
- The Remuneration Committee receives advice from external consultants as required.



## CORPORATE GOVERNANCE REPORT



## REMUNERATION

## REMUNERATION COMMITTEE REPORT

## INTRODUCTION: HEADLINES AND COMMITTEE CHAIR'S LETTER

"WE HAVE CONTINUED TO FOCUS ON MEETING THE STRATEGIC LONG-TERM AIMS OF THE GROUP."

**Anna Walker** Chair  
of the Remuneration  
Committee



## FOCUS AREAS IN 2019-20

During the year, the Committee's activities have included:

- reviewing remuneration for Executive Directors and overseeing policy for the wider workforce, taking into account the Remuneration Principles (see page 134) and the views of wider stakeholders.
- following a benchmarking exercise which applied a 15% discount to the CEO remuneration to take into account the Company's not-for-shareholder structure, proposing an increase in the LTVP opportunity for the Chief Executive's remuneration, which was approved at the 2019 AGM.
- approving remuneration for members of the restructured Dŵr Cymru Executive team.
- appointing new Remuneration Consultants.
- agreeing the terms of the AMP7 Remuneration Policy for Executive Directors, taking into account feedback from Glas Members and the economic and geographic context in which the Group is operating.

## MEMBERSHIP AND MEETING ATTENDANCE

| Member              | Attendance 2019-20 |
|---------------------|--------------------|
| Anna Walker (Chair) | 5/6                |
| Alastair Lyons      | 6/6                |
| Joanne Kenrick*     | 4/6                |
| Menna Richards**    | 2/6                |
| John Warren         | 6/6                |

\* Joanne Kenrick became a member of the Remuneration Committee from September 2019

\*\* Menna Richards stepped down from the Committee in June 2019

The Company Secretary acts as Secretary of the Committee. By invitation of the Committee Chair, other individuals such as the Chief Executive Officer, the People and Change Director, other senior managers or external advisers may attend for all or part of any meeting, as and when appropriate. The Committee Chair had been a member of the Committee for three years prior to being appointed Committee Chair.

## PRINCIPAL RESPONSIBILITIES

The role of the Committee is to recommend to the Board and to Glas Members for approval, and to keep under review, the Remuneration Policy (the "Policy") as it applies across the business as a whole. The Remuneration Committee also determines the Executive Directors' policy and sets remuneration for the Chair of the Board, the Executive Directors and the Executive Team, which includes the Company Secretary. In exercising this responsibility, the Committee has oversight of workforce remuneration policy and related policies, and of the alignment of incentives and rewards with the Company's purpose and values, taking these into account when setting the Policy.

## ACTIVITIES DURING THE YEAR

This year the Remuneration Committee has met six times and has appointed new remuneration advisers, Deloitte LLP part way through the year, following a tender.

We have reviewed Executive pay implementing a 15% discount to the benchmark as the Committee agreed in 2018, to reflect our not-for-shareholder structure. We have also established a proposed Remuneration Policy for AMP7 which will be put to the Glas Members at the 2020 AGM. The new Policy links variable pay to stretching targets focused on customer service and our key Performance Commitments for AMP7, as well as to the Company's longer term strategic goals, and

includes a wide discretion for the Committee to vary awards for variable pay where appropriate.

The fees for the Chair and Non-Executive Directors have been frozen for the second year to reflect the 15% discount to the benchmark.

## AT A GLANCE PERFORMANCE HIGHLIGHTS IN 2019-20

In 2019-20 the Company achieved first place in relation to Ofwat's shadow reporting of the new C-MeX measure of customer service, and has continued to increase scores for customer trust, which are the highest of any water company in England and Wales.

Whilst we still need to reduce instances of flooding to customer properties and to improve water quality compliance, we have maintained progress on other targets, including reducing numbers of pollution incidents and meeting our leakage reduction and treatment works compliance targets for water.

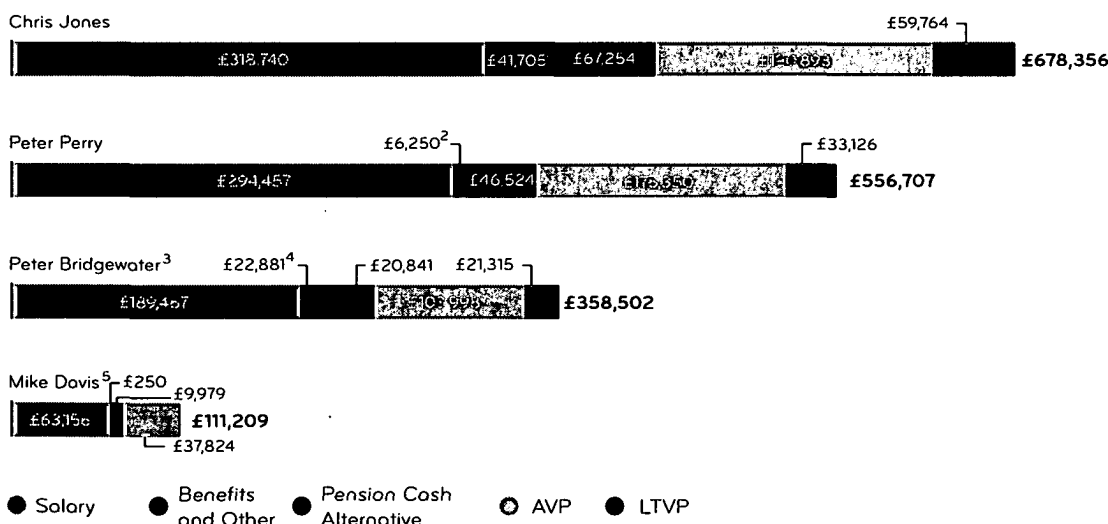
The numbers of customers who genuinely struggle to pay their water bills who have been assisted through our social tariffs programme and other financial support has increased to some 130,000.

This has been achieved against a background of dealing with Storms Ciara and Dennis (see detail of our response to these events on page 40) and ensuring we can continue to provide our essential services during the COVID-19 pandemic.

## EXECUTIVE PAY IN 2019-20 (EXCLUDING PENSION ACCRUALS)

The table below sets out the Directors' emoluments in respect of the year ended 31 March 2020. Overall levels of pay for the Chief Executive Officer and Managing Director of the Regulated Business decreased from the previous year, largely as a result of a decrease in the award for the LTVP element. The total remuneration figures shown in this table differ from those in the single figure remuneration table (figure 2 on page 136) as they do not include pension accruals.

FIGURE 1



1. This figure includes private health insurance and payment for annual leave accrued but not taken as at 31 March 2020
2. This represents a £5,000 per annum car allowance
3. Peter Bridgewater stepped down from the Board and the role of Finance and Commercial Director on 31 December 2019
4. This represents a £1,000 per month travel allowance (paid between 1 April 2019 and 31 December 2019) and payment for annual leave accrued but not taken as at 31 December 2019.
5. Mike Davis was appointed to the Board in the role of Chief Financial Officer on 1 January 2020

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

### REMUNERATION OVERVIEW

Dear Glas Members

On behalf of the Board, I am pleased to present the Remuneration Committee's report for 2020. In my final year as Chair of the Committee, the Committee has met six times and we have appointed new remuneration consultants (Deloitte LLP) following a tender process.

### STRUCTURE OF THIS REPORT

This Report is split into sections:

(1) an Annual Report on Remuneration describing:

- how the Remuneration Policy was implemented during 2019-20 (Part 1 - pages 135 to 140); and
- decisions taken for 2020-21 (Part 3 - pages 146 to 149)

This will be put to an advisory Member vote at the 2020 AGM.

(2) a Report on Remuneration Policy (Part 2 - pages 141 to 145). This sets out the proposed Executive Remuneration Policy for 2020-25 and the way that this is planned to be implemented in 2020-21.

Members will be asked to approve the AMP7 Policy at the 2020 AGM for the five-year period 2020-25: the policy is very similar to the previous one. The main changes are set out below and in the table beginning on page 142.

### BASIS FOR COMMITTEE'S DECISION-MAKING

In taking its decisions, the Committee follows the Objectives of Ofwat's Guidance on Leadership, Transparency and Governance, and the requirements of the FRC's UK Corporate Governance Code (the Code)<sup>1</sup>. It also takes into account the Remuneration



Principles (see text box on page 134) which are regularly discussed with Glas Members, and which will be reviewed again at the 2020 AGM with proposed amendments to take into account recent changes to the Code. In our decisions during 2019-20 we have continued to apply the 15% discount to the water sector benchmark we used in reviewing remuneration for both Executive and Non-Executive Directors in 2018-19. The 15% discount reflects our not-for-shareholder status. As a result, fees for the Chair have been frozen for the second year as have the fees for Non-Executive Directors (whose fees are reviewed by the Chair and Executive Directors). Executive Directors received a 2% inflationary salary increase in line with the rest of the workforce.

### CHANGES TO THE EXECUTIVE DIRECTORS

The Committee has set the salaries for the new Executive Directors who have taken up their roles this year. Following Peter Bridgewater's departure as Group Finance and Commercial Director at the end of 2019, Mike Davis, previously our Director of Strategy and Regulation, was appointed to the role of Chief Financial Officer with effect from 1 January 2020. The Executive team was restructured from 1 January 2020 to work with the Group's new Chief

Executive Officer, Peter Perry, from 1 April 2020.

### REMUNERATION IN 2019-20

The details of Directors' remuneration in 2019-20 are set out on pages 135 to 140.

The latter part of 2019-20 has seen the Company dealing with the impacts of Storms Ciara and Dennis, which caused a significant operational impact. Subsequently the Company has also had to deal with the huge challenge of the COVID-19 pandemic. Whilst the events of the year presented the Executive Directors with compliance and costs challenges, which were reflected in their achievement against these elements of the AVP, overall they led the Company exceptionally through these difficult conditions, hence the Committee awarding the maximum award for their achievement against their personal objectives. The Colleague Reward Scheme was also awarded at its maximum of £1,500 to reflect the huge commitment of front line colleagues.

### NOTE:

1. In preparing the Annual Remuneration Report, the Committee has taken into account Ofwat's guidance on transparency in its Regulatory Accounting Guideline 3.11, including the requirement to include a note which describes the link between Directors' pay and standards of performance as required by Section 35A of the Water Industry Act 1991 (as amended by section 50 of the Water Act 2003) (see pages 141 to 151).

## REMUNERATION IN 2020-2021

The details of decisions taken by the Committee with regard to Directors' remuneration in 2020-21 are set out on pages 146 to 149).

### AMP7 EXECUTIVE REMUNERATION POLICY

Part 2 of this Report (pages 141 to 145) sets out the proposed Executive Director Remuneration Policy for 2020-25. The new Policy maintains many of the key features of the AMP6 Policy. The major change relates to the performance measures which reflect the business targets set in Ofwat's stretching Final Determination for the Company for AMP7 and the long-term goals agreed for the company following public consultation on Welsh Water 2050.

#### WHAT IS THE SAME AS AMP6?

- The key elements of remuneration (base salary, AVP, LTVP, pension cash allowance, health insurance benefit) all remain
- Targets are still stretching, and focused on achieving improved operational performance and excellent customer service
- The maximum opportunities for AVP (100% salary per annum) and LTVP (100% of salary for CEO, 60% for the Chief Financial Officer, per annum) have not changed and remain subject to meeting stretching "threshold", "target" and "maximum" measures
- Remuneration continues to balance the key aspects of our corporate structure, ethos and values against the need to attract and retain key individuals
- Remuneration Policy for Executive Directors is aligned with the structure of pay for the wider workforce

#### WHAT HAS CHANGED?

- The Measures for AVP are linked to a larger number (14) of the key measures (related either to Customer Service or Operational Performance) against which penalties/rewards will be imposed/paid by Ofwat for company performance during the five-year AMP7 period
- The "Personal Objectives" element of AVP has been replaced with "Strategic Goals" which are selected by the Committee as areas of focus for each year of the scheme
- LTVP is a five-year scheme that measures performance across the entire 5 years of AMP7 (rather than the three-year rolling scheme for AMP6). It pays out on account every year, but will not pay any amount for performance above "target", holding any such sums on account against future underperformance until the final, fifth year
- Targets for LTVP are set at 50% for Totex (overall costs efficiency and spend over the AMP7 period 2020-25) and 50% for Performance Development linked to Welsh Water 2050 long-term goals
- Pensions benefits are aligned across the Company with everyone receiving the same employer contribution, in line with best practice
- The Committee has a wider discretion to vary award in both directions, to avoid formulaic outcomes, where these are unrepresentative of the overall performance of the Company

### COVID-19

The Glas Board is very conscious of the enormous impact of Covid 19 across Wales. At its Board meeting on 30 April 2020, members of the Board requested that their respective salaries and fees be reduced by 20% for the months of May, June and July 2020 to contribute to the Company's Community Fund. The Fund is providing immediate assistance to local communities most affected by the pandemic and is supporting Business in the Community Wales, the Community Foundation Wales and the Trussell Trust.

In conclusion, the Remuneration Committee remains satisfied that our decisions have incentivised strong performance whilst taking account of our not-for-shareholder status and not encouraging inappropriate risk taking by the Executive Directors, and that the policy we propose for 2020-25 will continue to achieve these objectives. The inclusion of short and long-term variable elements of pay also ensures that remuneration is sufficiently competitive to attract and retain high calibre employees, whilst aligning remuneration policy with the long-term success of Welsh Water and the interests of its customers.

*Anna Walker*

**Anna Walker CB**  
Chair of the Remuneration  
Committee

5 June 2020

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

### REMUNERATION PRINCIPLES

The Chair of the Committee regularly discusses with Glas Members the key Principles that apply to the Committee's work. These are set out below, including the final Principle added by the Committee in 2019.

Proposed amendments to the Principles, to be discussed with Members at the 2020 AGM, are shown *highlighted* below.

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

### THE ROLE OF GLAS MEMBERS

Glas Members perform an essential governance function for the Group in the approval of remuneration policies.

The 2019–20 Annual Report on Remuneration, setting out how the policy was implemented in 2019–20 and decisions taken in 2020–21, will be subject to an advisory vote by Members at the forthcoming 2020 AGM. The vote is "advisory" because it doesn't change the decisions taken but the Committee will take it into account in its future decision-making.

Members approve the Remuneration Policy of the Board by binding vote at least every three years (or where any significant change is proposed). This is in accordance with the remuneration reporting requirements for UK listed companies. Members approved the current Remuneration Policy at the 2015 and 2018 AGM, and reapproved it with a change to the LTP scheme for the CEO, at the 2019 AGM. At this year's AGM, the Members will be asked to approve the Remuneration Policy for 2020–25 (AMP7) (as summarised in Part 2 of this Remuneration Report, pages 141 to 145) .

For details of voting at previous AGMs, please see page 151.

The Terms of Reference of the Committee are available on our website: [dwrcymru.com/AR2020-terms](http://dwrcymru.com/AR2020-terms)

## PART 1: IMPLEMENTATION IN 2019–20

This section sets out the details of the Executive Directors' and Non-Executive Directors' remuneration for 2019–20. It explains how the Remuneration Policy has been implemented in 2019–20. As well as disclosing remuneration figures for the Executive Directors, it also includes details on performance and the resulting levels of AVPS and LTVPS payout. Certain disclosures of the detailed information about the Executive Directors' remuneration below have been audited by the Group's independent Auditors, KPMG LLP (as indicated against the relevant tables).

### APPLICATION OF REMUNERATION POLICY AMP6 – SUMMARY

While overall performance in 2019–20 has been good, awards under the AVP and LTVP scheme are lower than in 2018–19.

- Base salaries were increased by 2.1% for the Executive Directors in April 2019. This was the same as the pay award for the rest of the workforce, which had been agreed with our recognised Trade Unions.

#### AVPS

- Under the AVPS, up to 100% of salary can be earned in any year (maximum 20% of salary for each element). For 2019–20, awards have been made equivalent to:
  - 14.9% of base salary for performance against the Customer element;
  - 11% for performance against the Compliance element;
  - 2.6% for the Costs element;
  - 11.3% against the Strategic Annual Focus element;
  - between 15% and 20% against Personal objectives.
- This gives a total award for AVPS of between 54.9% and 59.9% of base salary. This compares with total awards of 62.3% and 67.3% in 2018–19, and includes pro-rata awards for Peter Bridgewater, who left the business at the end of December 2019, and Mike Davis, who became an Executive Director from 1 January 2020.

#### LTVPS

- Under the LTVPS, the overall maximum that could be awarded in the AMP6 five-year regulatory period is 300% of salary (ie 60% per annum). From 2019–20, in the case of the Chief Executive Officer, the maximum award is 100% per annum.
- LTVPS awards for AMP6 were based on Customer Value (increases in reserves and transfers to Customer Reserves) and Customer Service (calculated on a three-year rolling average of performance).
- For the Customer Service element of LTVPS targets, measured on a rolling three-year basis Ofwat no longer uses the SIM measurement and has moved to a new C-MeX measure (see Glossary on page 210 for definition) which is a more wide-ranging measure of customer views. A provisional award for the Customer Service element for 2019–20 has been based on the new C-MeX measure, to be confirmed when the Ofwat C-MeX league table for 2019–20 is published later in the summer. As Welsh Water has been rated 1st in the sector under the new C-MeX measure, a provisional award of 18.8%/11.3% of salary has been awarded for this objective, calculated on the rolling three-year basis.
- For the Customer Value element of the scheme measured for the year to 31 March 2020, a payment of 0% of salary has been awarded.
- The Committee also concluded that the Chair of the Board's fee should also be subject to the 15% discount against the benchmark, and this was implemented in 2019–20, so that the Chair's fee was frozen at the previous year's amount. The Chair of the Board and the Executive Directors reviewed the fees paid to Non-Executive Directors and concluded it was appropriate to freeze the Non-Executive Director fee.

## CORPORATE GOVERNANCE REPORT



## REMUNERATION

FIGURE 2

## PAYMENTS AND BENEFITS EARNED BY DIRECTORS IN 2019-2020 (AUDITED)

|                                | Salary/Fees |           | Benefits <sup>1</sup> |         | Other   |                     | AVPS <sup>3</sup> |         |         | LTVPS <sup>4</sup> |                     | Pension Cash Alternative |          | Pension Accruals <sup>5</sup> |           | Total     |  |
|--------------------------------|-------------|-----------|-----------------------|---------|---------|---------------------|-------------------|---------|---------|--------------------|---------------------|--------------------------|----------|-------------------------------|-----------|-----------|--|
|                                | 2018-19     | 2019-20   | 2018-19               | 2019-20 | 2018-19 | 2019-20             | 2018-19           | 2019-20 | 2018-19 | 2019-20            | 2018-19             | 2019-20                  | 2018-19  | 2019-20                       | 2018-19   | 2019-20   |  |
|                                | £           | £         | £                     | £       | £       | £                   | £                 | £       | £       | £                  | £                   | £                        | £        | £                             | £         | £         |  |
| Chris Jones                    | 306,186     | 318,740   | 1,250                 | 1,250   | -       | 40,455 <sup>1</sup> | 206,063           | 190,893 | 45,928  | 59,764             | 64,605 <sup>2</sup> | 67,254                   | (16,574) | 7,039                         | 607,458   | 685,396   |  |
| Peter Perry                    | 288,400     | 294,457   | 1,250                 | 1,250   | 5,000   | 5,000 <sup>4</sup>  | 194,093           | 176,350 | 43,260  | 33,126             | 45,567              | 46,524                   | 243,927  | (10,295)                      | 821,497   | 546,412   |  |
| Peter Bridgewater <sup>7</sup> | 247,427     | 189,467   | 1,250                 | 1,250   | 12,000  | 21,631 <sup>8</sup> | 154,147           | 103,998 | 37,114  | 21,315             | 27,217              | 20,841                   | -        | -                             | 479,155   | 358,502   |  |
| Mike Davis <sup>9</sup>        | -           | 63,156    | -                     | 250     | -       | -                   | -                 | 37,824  | -       | -                  | -                   | 9,979                    | -        | -                             | -         | 111,209   |  |
| Alastair Lyons                 | 221,900     | 221,900   | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | 221,900   | 221,900   |  |
| Menna Richards                 | 72,950      | 72,950    | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | 72,950    | 72,950    |  |
| Anna Walker                    | 61,650      | 61,650    | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | 61,650    | 61,650    |  |
| John Warren                    | 61,650      | 61,650    | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | 61,650    | 61,650    |  |
| Graham Edwards                 | 61,650      | 61,650    | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | 61,650    | 61,650    |  |
| Joanne Kenrick                 | 61,650      | 61,650    | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | 61,650    | 61,650    |  |
| Thomas Crick                   | 61,650      | 61,650    | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | 61,650    | 61,650    |  |
| Debra Bowen Rees <sup>10</sup> | -           | 15,413    | -                     | -       | -       | -                   | -                 | -       | -       | -                  | -                   | -                        | -        | -                             | -         | 15,413    |  |
| Total                          | 1,445,113   | 1,484,333 | 3,750                 | 4,000   | 17,000  | 67,086              | 554,303           | 509,065 | 126,302 | 114,205            | 137,389             | 144,598                  | 227,353  | (3,256)                       | 2,511,210 | 2,320,031 |  |

1. Taxable benefits relate to private health cover.

2. This figure represents payment for annual leave accrued but not taken as at 31 March 2020.

3. Please see determination of AVPS scheme outcome on page 138. Performance against AVPS targets on 2019-20 resulted in a lower payment than in 2018-19.

4. Please see determination of LTVPS outcome on page 139.

5. Accrued pension benefits for 2019-20 in respect of the (closed) Defined Benefit pension scheme for Chris Jones and Peter Perry are also disclosed separately in Figure 4.

6. This represents a £5,000 per annum car allowance.

7. Peter Bridgewater stepped down from the Board and the role of Finance and Commercial Director on 31 December 2019. He received £109,308 redundancy pay based on 5 years' complete service in accordance with the Company's redundancy policy, plus payment in lieu of notice of £146,206 (equal to six months' base salary and benefits) as per the terms of his service agreement and a contribution towards legal fees and outplacement services of £6,500. He was treated as a good leaver for the purposes of the AVPS and LTVPS for 2019-20 and awarded a pro-rata payment under both plans, as detailed above.

8. This represents a £1,000 per month travel allowance (paid between 1 April 2019 and 31 December 2019) and payment for annual leave accrued but not taken as at 31 December 2019.

9. Mike Davis was appointed to the Board in the role of Chief Financial Officer on 1 January 2020.

10. Debra Bowen Rees was appointed to the Board on 1 January 2020.

FIGURE 3 EXECUTIVE DIRECTORS' BASE SALARIES

|                                 | Effective 1 April 2019 |
|---------------------------------|------------------------|
| Chief Executive Officer         | £318,740               |
| Managing Director               | £294,457               |
| Finance and Commercial Director | £252,623               |

## Notes:

- Chris Jones stepped down from the Chief Executive position on 31 March 2020 but continued as a member of the Board of Directors for a temporary period from 1 April until 15 May 2020, on a lower salary of £300,346.
- Peter Bridgewater stepped down from the Board and the Finance and Commercial Director position on 31 December 2019.
- Mike Davis was appointed to the Board and the Chief Financial Officer position on 1 January 2020. Salary at appointment matched to salary for outgoing Finance and Commercial Director.

FIGURE 4 PENSION BENEFITS

The pension benefits earned by the Chief Executive Officer and Managing Director during the year are shown below (audited).

Pensions benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme which Chris Jones and Peter Perry participate in. From 1 April 2020, Executive Directors receive a pension cash allowance equivalent to 11% of salary less employer NI payments.

## Year ending 31 March 2019 (re-stated)

|             |     | Accrued pension at 31 March 2018 | Capitalised value of accrued pension at 31 March 2018 | Revalued capitalised value of accrued pension at 31 March 2018 | Accrued pension at 31 March 2019 | Capitalised value of accrued pension at 31 March 2019 | Member contributions paid during the year 2019 | Pension Input Amount (net of member contributions 2019) |
|-------------|-----|----------------------------------|-------------------------------------------------------|----------------------------------------------------------------|----------------------------------|-------------------------------------------------------|------------------------------------------------|---------------------------------------------------------|
|             | Age | £                                | £                                                     | £                                                              | £                                | £                                                     | £                                              | £                                                       |
| Chris Jones | 60  | 148,824                          | 2,976,480                                             | 3,065,774                                                      | 152,460                          | 3,049,200                                             | -                                              | (16,574)                                                |
| Peter Perry | 60  | 154,855                          | 3,097,100                                             | 3,190,013                                                      | 171,697                          | 3,433,940                                             | -                                              | 243,927                                                 |

## Year ending 31 March 2020

|             |     | Accrued pension at 31 March 2019 | Capitalised value of accrued pension at 31 March 2019 | Revalued capitalised value of accrued pension at 31 March 2019 | Accrued pension at 31 March 2020 | Capitalised value of accrued pension at 31 March 2020 | Member contributions paid during the year 2020 | Pension Input Amount (net of member contributions 2020) |
|-------------|-----|----------------------------------|-------------------------------------------------------|----------------------------------------------------------------|----------------------------------|-------------------------------------------------------|------------------------------------------------|---------------------------------------------------------|
|             | Age | £                                | £                                                     | £                                                              | £                                | £                                                     | £                                              | £                                                       |
| Chris Jones | 60  | 152,460                          | 3,049,200                                             | 3,122,381                                                      | 156,471                          | 3,129,420                                             | -                                              | 7,039                                                   |
| Peter Perry | 60  | 171,697                          | 3,433,940                                             | 3,516,355                                                      | 175,303 <sup>1</sup>             | 3,506,060                                             | -                                              | (10,295)                                                |

1. Peter Perry has a longer period of service with the Group, hence the higher value of his accrued pension.

## CORPORATE GOVERNANCE REPORT



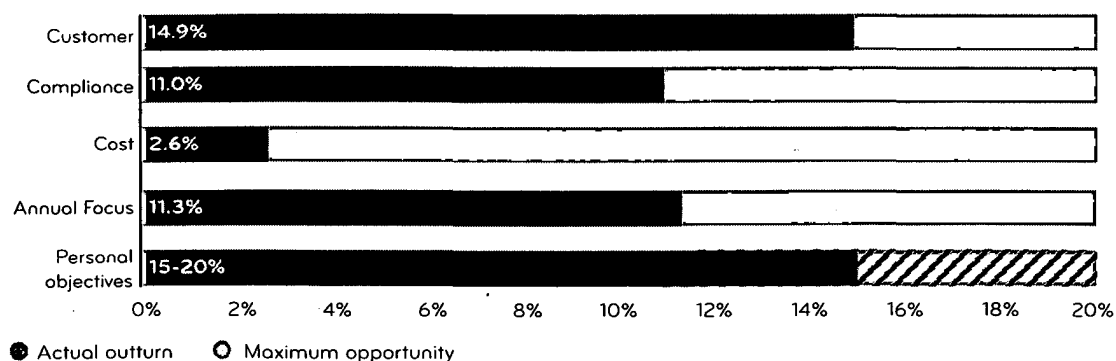
## REMUNERATION

FIGURE 5

## AVPS OUTTURN 2019-20

For 2019-20, the Remuneration Committee measured performance against each target as follows in the table below. Performance in 2019-20 resulted in an AVPS award of between 54.9% and 59.9% compared with an award of between 62.3% and 67.3% for the Executive Directors in 2018-19.

| MEASURE                          | WEIGHTING | TARGET PAYOUTS<br>(% OF SALARY) | RESULT       | % OF MAXIMUM |
|----------------------------------|-----------|---------------------------------|--------------|--------------|
| <b>Customer</b>                  |           |                                 |              |              |
| • Business Customer Satisfaction |           | Threshold 5%                    |              |              |
| • Customer Acceptability         |           | Target 12.5%                    | 14.9%        | 75%          |
| • Reliability of Supply          | 20%       | Stretch 20%                     |              |              |
| • Properties Flooded in the Year |           |                                 |              |              |
| • Net Promoter Score             |           |                                 |              |              |
| • Complaints                     |           |                                 |              |              |
| <b>Compliance</b>                |           |                                 |              |              |
| • Safety of Drinking Water       |           | Threshold 4%                    |              |              |
| • Treating Used Water            | 20%       | Target 12.5%                    | 11.0%        | 55%          |
| • Preventing Pollution           |           | Stretch 20%                     |              |              |
| • Leakage                        |           |                                 |              |              |
| • Asset Serviceability           |           |                                 |              |              |
| <b>Cost</b>                      |           | Threshold 4.8%                  |              |              |
| • Total Company Totex            | 20%       | Target 14.4%                    | 2.6%         | 13%          |
| • Bad Debt                       |           | Stretch 20%                     |              |              |
| <b>Annual focus</b>              |           | Threshold 4%                    |              |              |
| • Reliability of Supply          |           | Target 12%                      |              |              |
| • Customer Acceptability         | 20%       | Stretch 20%                     | 11.3%        | 57%          |
| • Treating Used Water            |           |                                 |              |              |
| <b>Personal</b>                  | 20%       |                                 | 15-20%       | 75-100%      |
| <b>Total</b>                     | 100%      |                                 | 54.9 - 59.9% |              |



## NOTES TO TABLE:

Personal Objectives: The personal objectives (worth up to 20% of base salary) of the Executive Directors were aligned to the delivery of Welsh Water's key strategic objectives and the delivery of the business plan for 2019-20.

- Chris Jones' primary personal objective was to obtain the best possible outcome for the Company from the PR19 process and to effect a smooth handover to the new CEO. The Committee assessed that Chris Jones had achieved an outstanding performance against his personal objectives and the payout awarded was 20% of salary.
- Peter Bridgewater's primary personal objective was to oversee the production of an agreed Digital Framework and IT Delivery Plan, and a costs reduction plan for 2020-25. The Committee deemed that good progress had been made towards fulfilling both objectives and awarded him 15% of salary pro-rata.
- Peter Perry's primary personal objectives were to lead the overall business change plan for AMP7 and to progress the succession and development plans for his direct reports. The Committee assessed that Peter had achieved an outstanding performance against his primary personal objectives and the payout awarded was 20% of salary.
- Mike Davis' key objectives for his first three months in post were to secure bond funding for AMP7 and to establish his new team structure. The Committee noted that both objectives had been achieved within this three-month period and awarded him 20% of salary, pro-rata for this period.

## LTVPS OPPORTUNITY

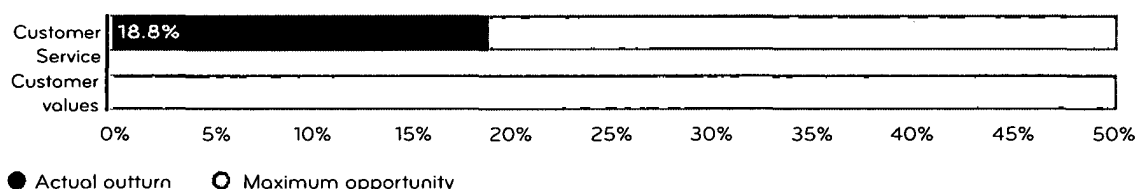
For AMP6, the LTVPS opportunity was linked to performance against two measures:

**Customer Service:** based on a rolling three-year average of comparative customer service based on Ofwat's SIM (Service Incentive Mechanism) measure of success. Ofwat has moved to a new measure for Customer Service in AMP7 – C-Mex. Performance for 2019-20 has been assessed against C-Mex performance in this "shadow" reporting year; and

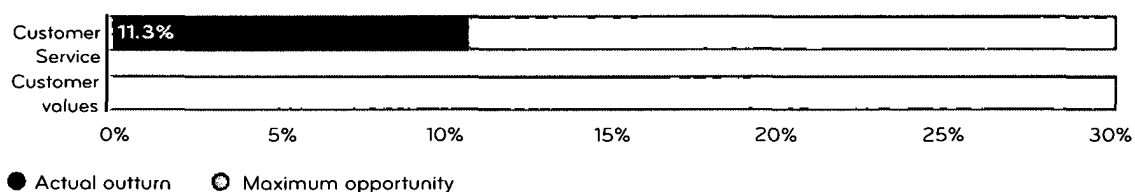
**Customer Value:** based on actual customer value created (increase in Reserves and transfers to Customer Reserves) at 31 March 2020 compared to targets.

FIGURE 6 LTVPS OUTTURN 2019-20

## CHIEF EXECUTIVE



## OTHER EXECUTIVE DIRECTORS

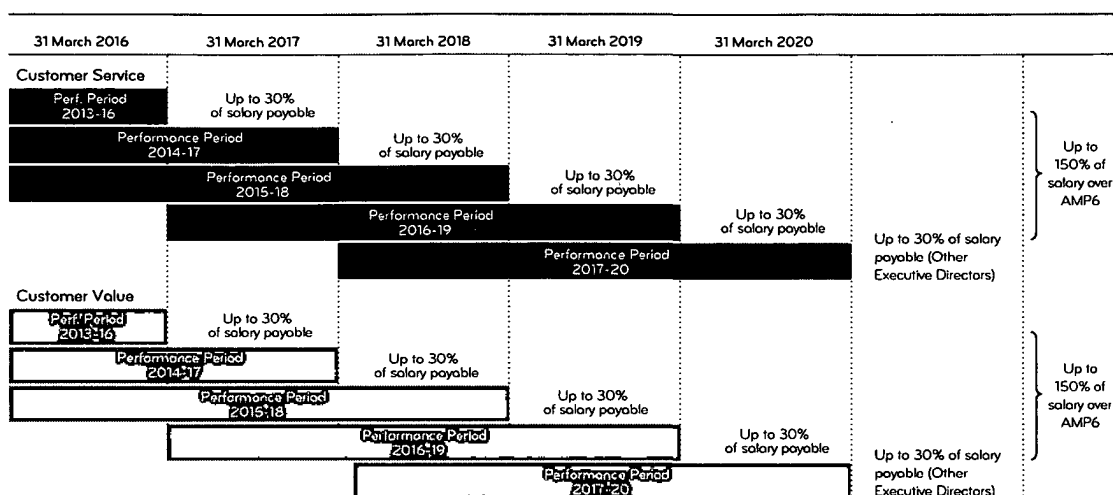


## CORPORATE GOVERNANCE REPORT



## REMUNERATION

FIGURE 7 LONG-TERM VARIABLE PAY SCHEME STRUCTURE 2019–2020



For 2019–20 onwards, the maximum potential opportunity for the CEO under the LTVPS increased to 100% of salary per annum.

FIGURE 8 OVERALL PAY AND PERFORMANCE (INCLUDING PENSION ACCRUALS)

|                                                         | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018     | 2019     | 2020     |
|---------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Total remuneration for Managing Director (Nigel Annett) | £677,770 | £590,210 | £709,890 | -        | -        | -        | -        | -        | -        |
| Total remuneration for Chief Executive (Chris Jones)    | -        | -        | £741,569 | £973,688 | £746,430 | £629,102 | £678,522 | £607,458 | £685,396 |
| AVPS award (Nigel Annett)                               | 77.6%    | 60.6%    | 49.9%    | -        | -        | -        | -        | -        | -        |
| AVPS award (Chris Jones)                                | -        | -        | 51.1%    | 79.4%    | 70.3%    | 75.4%    | 64.6%    | 67.3%    | 59.9%    |
| LTVPS for AMP5                                          | 40%      | 50%      | 78.6%    | 90.6%    | -        | -        | -        | -        | -        |
| LTVPS for AMP6                                          | -        | -        | -        | -        | 65%      | 65.4%    | 26.7%    | 25%      | 18.8%    |

FIGURE 9 RELATIVE IMPORTANCE OF SPEND ON PAY

|                                       | 2019<br>£m | 2020<br>£m | Change |         |
|---------------------------------------|------------|------------|--------|---------|
|                                       |            |            | £m     | %       |
| Total expenditure <sup>1</sup>        | 1,009.2    | 1036.2     | 27.0   | 2.7%    |
| Employee remuneration costs           | 159.6      | 162.1      | 2.5    | 1.6%    |
| Customer Dividend <sup>2</sup>        | 40         | 47         | 7      | 17.5%   |
| Executive Director remuneration costs | 1.91       | 1.70       | (0.21) | (10.8)% |

1. Operational expenditure, capital expenditure and financing costs.

2. See Glossary section page 210 for definition.

## PART 2: REPORT ON REMUNERATION POLICY

This section sets out the structure of the Remuneration Policy which will be put to Glas Members for approval at the 2020 AGM. The aim of Welsh Water's Remuneration Policy is to promote the long-term success of the Company and to retain and incentivise the Executive Directors to deliver strong and sustainable performance aligned with the Company's long-term strategy and objectives.

The new Policy intends to ensure that:

- Levels of base salary and total remuneration (when assessed periodically against the market) are fair and competitive having regard to an individual's experience and responsibility, in order to attract and retain necessary skills and talent;
- Performance improvement is encouraged by ensuring that a significant proportion of the total remuneration opportunity is linked to performance;
- AVPS incentives are focused on the outcomes which are considered important for customers and calibrated against the prior year's performance assessed by Ofwat and other regulators, in order to incentivise sector-leading performance in a transparent and accountable way;
- The LTVPS is focused on Totex performance (overall costs efficiency and spend over the period 2020–25) and performance measures which support the long-term strategic goals of the company as set out in Welsh Water 2050, and linked to the overall reward/penalty position in relation to Ofwat's Outcome Delivery incentives for those measures over 2020–25.

## CHANGES IN THE REMUNERATION POLICY FOR AMP7

While there is continuity with the structure of the AMP6 scheme, the AVP scheme for AMP7 will not include Personal Objectives as one of the objectives for the AVPS but will instead incentivise a focus on delivering a suite of Strategic Goals reflecting our regulatory targets. This reflects the Executive Directors' overall responsibility for the performance of the business in the round, rather than the achievement of specific personal contributions towards that performance.

For the LTVP element, the targets will be set over a five-year period but will pay out "on account" on an annual basis according to achievement against planned performance towards the 5-year objectives. The objectives will be linked to Totex spend (50%), and to a basket of Performance Development measures (50%) which will be linked to the long-term strategies set out in the Group's Welsh Water 2050 strategy. No amount will be paid for performance above "target" in a single year, but any such sums will be held on account against future underperformance.

Other changes are summarised in the table on page 133.

The Committee began considering the various elements of the Executive Remuneration Policy for AMP7 in 2018-19. In developing this to be implemented for 2020-25, the Committee has aimed to:

- reflect the decision by the Committee to apply a 15% discount to benchmark data on base salary;
- improve the clarity and simplicity of variable pay schemes to increase transparency;
- balance incentivising good performance with guarding against encouraging inappropriate risk taking; and
- achieve reasonable predictability of outcome, while giving the Committee discretion to vary awards to ensure proportionality against the Company's overall performance.

The measures against which performance under the Schemes is assessed are based on a set of performance targets closely linked to the regulatory targets which the Company has to meet and to the longer-term strategies set out in Welsh Water 2050. Through engagement with stakeholders and through taking into account workforce remuneration and related policies, the Committee has sought to ensure that the Executive Remuneration Policy is closely aligned with the Company's culture.

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

### SUMMARY OF REMUNERATION POLICY FOR AMP7

The AMP7 Remuneration Policy reflects our stakeholders' views on remuneration and strikes a balance between the need to attract and retain Executive Directors and the key focus on efficiencies and costs savings which we are committed to for AMP7. The individual components of the Executive Directors' Remuneration Policy for 2020–25 (which will be put to the Glas Members for approval at the 2020 AGM) are set out in the table on the following pages:

### SUMMARY REMUNERATION POLICY FOR AMP7

|                    | PURPOSE AND LINK TO STRATEGY                                                                                                                          | OPERATION                                                                                                                                                                                                                                                                                                                                                                     | OPPORTUNITY                                                                                                                                                                                                                                                               | PERFORMANCE METRICS         |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| <b>Base salary</b> | To help attract, retain and motivate high-calibre employees.                                                                                          | <p>Normally reviewed annually and any increases applied with effect from 1 April.</p> <p>Review reflects:</p> <ul style="list-style-type: none"> <li>• Role, experience and performance</li> <li>• Wider economic conditions</li> <li>• Increases awarded throughout the rest of the workforce</li> <li>• Periodic reviews of remuneration within the water sector</li> </ul> | <p>Annual inflationary increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above or below this level where appropriate.</p> <p>Current salaries are disclosed in Part 4.</p> | Annual Performance Reviews. |
| <b>Benefits</b>    | <p>To provide a market competitive benefits package to help attract and retain employees.</p> <p>Healthcare benefits promote business continuity.</p> | <p>Directors are eligible for private health cover.</p> <p>The Chief Executive has a historic entitlement to permanent health insurance.</p> <p>Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate.</p>                                                                                                              | Value of benefits is based on the cost to the Company and is not predetermined.                                                                                                                                                                                           | None                        |

|         | PURPOSE<br>AND LINK TO<br>STRATEGY                                                                                                       | OPERATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | OPPORTUNITY                                                                                         | PERFORMANCE<br>METRICS                                                                                                                                                                                                                                                                                                                                                                                        |
|---------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pension | <p>To help attract and retain high-calibre employees.</p> <p>Discrete post-retirement planning provision.</p>                            | <p>From 1 April 2020, all employees, including Executive Directors, will be entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance of 9.7%.</p> <p>Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme which Peter Perry participates in.</p> <p>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.</p>                                                                                                                                                                                            | The cash allowance is equivalent to the employer contribution of 11% less employer NI contribution. | None                                                                                                                                                                                                                                                                                                                                                                                                          |
| AVPS    | <p>To incentivise the annual delivery of stretching targets and delivery of strategic goals.</p> <p>To aid attraction and retention.</p> | <p>AVPS targets reviewed annually by the Committee.</p> <p>Measured against a benchmark setting threshold, target and maximum performance levels.</p> <p>Outturn against targets is determined by the Remuneration Committee after the year end based on performance against targets</p> <ul style="list-style-type: none"> <li>• Paid as cash</li> <li>• Not pensionable</li> <li>• Clawback provisions apply in the following circumstances: <ul style="list-style-type: none"> <li>– Restatement of accounts</li> <li>– Material misrepresentation</li> <li>– Gross misconduct or caused reputational damage to the Company or Group Company</li> </ul> </li> </ul> <p>AVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or in the following performance year.</p> | Maximum AVP potential of 100% of salary, for the achievement of stretching performance targets.     | <p>Measures aligned to the Business Plan themes of Customer Service (40% weighting), Operational Performance (40% weighting) and Strategic Goals (20% weighting).</p> <p>For AMP7, the scheme has been amended to focus on the key performance objectives of the business plan. The personal objectives have been replaced with a suite of Strategic Goals which are selected by the Committee each year.</p> |

## CORPORATE GOVERNANCE REPORT



## REMUNERATION

|                         | PURPOSE<br>AND LINK TO<br>STRATEGY                                                                                                                                                                                                    | OPERATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | OPPORTUNITY                                                                                                                                                                                                                                                                                                                                          | PERFORMANCE<br>METRICS                                                                                                                                                                                                                                                                                      |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| LTVPS                   | <p>To align the long-term focus of the Executive Directors with those of Welsh Water's customers and stakeholders.</p> <p>To incentivise achievement of the company's long-term strategy.</p> <p>To aid attraction and retention.</p> | <p>Cash awards based on stretching performance targets.</p> <p>Performance is measured against threshold, target and maximum targets.</p> <p>Performance against the measures is assessed over the five-year period of AMP7. Interim payments are made on an annual basis.</p> <p>LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or for a period of six years from the date of payment.</p> | <p>The maximum potential award for the Chief Executive is 500% of salary over the five-year regulatory period (to a maximum potential award of 100% per annum).</p> <p>For other Directors, the maximum potential award is 300% of salary over the five-year regulatory period to 31 March 2020 (to a maximum potential award of 60% per annum).</p> | <p>50% based on Totex performance and 50% based on overall reward/penalty outcomes for performance over a range of performance development measures.</p> <p>Objectives are linked to a range of performance measures which are relevant to achieving the Company's long-term goals in Welsh Water 2050.</p> |
| Non-Executive Directors | <p>Provides an appropriate level of fixed fee to attract and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties.</p>                                                    | <p>The Remuneration Committee determines the fee payable to the Chair of the Board and, separately, the Executive Directors and the Chair approve the fee payable to the Non-Executive Directors.</p> <p>All Directors may be paid for additional expenses incurred in connection with their role on the Board and are responsible for any taxable benefit implications that may result.</p>                                                                                                                                         | <p>Non-Executive Directors do not receive any additional fees for chairing committees.</p>                                                                                                                                                                                                                                                           | <p>Annual Review</p>                                                                                                                                                                                                                                                                                        |

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>New appointments</b>                            | <ul style="list-style-type: none"> <li>• Base salary levels will be set to reflect the experience of the individual, tested against market benchmarking data and internal relativities. If it is considered appropriate to appoint a new Executive Director on a below market salary, they may be subject to a series of increases to the salary positioning over a logical timeframe subject to performance in post. This approach will apply to both internal and external appointments, when appropriate.</li> <li>• The policy will be for the new Executive Director to participate in the remuneration structure detailed above. Exceptions to this could be setting different measures or implementing transitional arrangements should an Executive Director join part way through the five-year regulatory period. For internal promotions to Executive Director, entitlement to previously accrued AVPS, up to the appointment date will be unaffected.</li> <li>• New Executive Directors are automatically enrolled in the DCWW Group Personal Pension Plan with a maximum employer contribution of 11% or the opportunity to opt out and receive a cash allowance of 9.7% (11% less employer NI contribution).</li> <li>• Should it be the case that the Remuneration Committee considers it necessary to buy out incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, will be structured so that the terms of the buyout mirror the form and structure of the remuneration being replaced.</li> </ul>                                                                                                                                                                                                                                                              |
| <b>Policy for payments to departing executives</b> | <ul style="list-style-type: none"> <li>• The Executive Directors have service contracts that are subject to a 12-month notice period and which do not provide for compensation to be payable in the event of early termination by the Company. At the Company's discretion, an Executive Director may be paid base salary alone in lieu of notice. A significant element of mitigation is built into the contract should the Company choose to exercise its option to make a payment in lieu of notice.</li> <li>• When an Executive Director leaves via redundancy and is not required to work his/her notice period, he/she will be entitled to Statutory Redundancy and Enhanced Redundancy in line with the Company's redundancy policy plus up to 12 months' pay in lieu of notice together with pay in lieu of accrued but untaken holidays. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements.</li> <li>• Should an Executive Director resign, he/she will be expected to work their notice period unless an alternative arrangement such as garden leave or a reduced notice period is agreed.</li> <li>• In the event that the Company terminates the Executive's employment, the Company will take legal advice and will pay to the Executive only such amount as the Executive is legally entitled to receive. In the event of cessation of employment AVPS and LTVPS awards will be treated in line with the relevant scheme rules which describe the treatment of any payment with reference to 'good' or 'bad' leaver terms.</li> </ul> |

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

### PART 3: IMPLEMENTATION 2020-21

This section sets out the detail of the way that the Remuneration Committee is applying the Remuneration Policy in 2020-21. The Remuneration Principles (see page 134) emphasise that the remuneration structure for the Executive Directors and the wider Executive team should align with the interests of the Group, and in particular with the interests of customers, as well as being consistent with our values and policies. This will continue to govern our approach in 2020-25. Decisions taken by the Committee in relation to the implementation of the Policy in 2020-21 are:

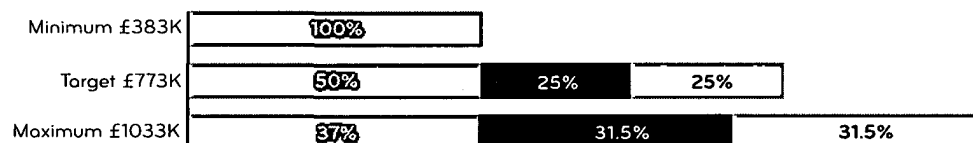
- Basic salary - in light of restructuring of the Executive team and the appointment of the new CEO and CFO.
- The AVPS will focus on Customer Service, Operational Performance and Strategic Goals.
- The LTVPS will focus on Totex Performance and Performance Development across a range of measures.

### THE GRAPHS BELOW SHOW THE OPPORTUNITIES FOR EACH EXECUTIVE DIRECTOR FOR 2020-21:

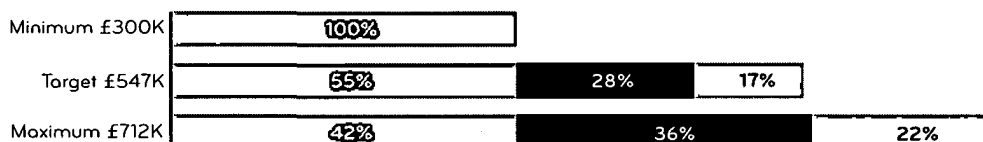
- The minimum level of remuneration payable. This comprises basic salary, any travel and car allowances, health insurance benefits and pension;
- The expected level of remuneration, reflecting a typical level of performance against targets for the AVPS and LTVPS. This represents 60% of the maximum payout for each of AVP and LTVPS; and
- The maximum level of remuneration, if all AVPS and LTVPS performance targets were fully achieved.

FIGURE 10

#### Chief Executive Officer



#### Chief Financial Officer



○ Base Salary, Pension and benefits    ● AVPS    ○ LTVPS

#### NOTES:

The maximum award payable to the Chief Executive under the LTVPS scheme was increased from 60% of base salary to 100% of base salary from 2019-20 onwards.

## BASE SALARY 2020-21

Following the appointment of Peter Perry as Chief Executive Officer with effect from 1 April 2020 and the appointment of Mike Davis as Group Financial Officer with effect from 1 January 2020, the Remuneration Committee set the base salaries for each Executive Director (effective 1 April 2020) as shown in Figure 11 below. These figures include a 2% inflationary increase with effect from 1 April 2020 which mirrors the increase awarded to employees on 1 April 2020 in accordance with a five-year pay deal agreed with the Group's three recognised Trade Unions (GMB, Unison and Unite) and also awarded to those employees not covered by trade union agreements.

FIGURE 11 EXECUTIVE DIRECTORS' BASE SALARIES YEAR ON YEAR

|                                                         | Effective<br>1 April 2019<br>£ | Effective<br>1 April 2020<br>£ | %<br>change<br>1 April 2020 |
|---------------------------------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Chief Executive Officer                                 | 318,740                        | 325,115                        | 2.0%                        |
| Managing Director                                       | 294,457                        | n/a                            |                             |
| Finance and Commercial Director/Chief Financial Officer | 252,623                        | 257,675                        | 2.0%                        |

### Notes:

Peter Perry was appointed as CEO with effect from 1 April 2020. His salary at appointment was matched to the salary for the outgoing CEO, but from 1 April 2020 he received the same inflationary increase as the rest of the workforce – 2%.

Mike Davis was appointed as CFO with effect from 1 January 2020. His salary on appointment was matched to the salary for the outgoing Finance and Commercial Director and he also received a 2% inflationary increase from 1 April 2020.

Chris Jones stayed on as an Executive Director (on a lower salary) at the request of the Board, having stepped down as CEO on 31 March 2020, but retired from the Board on 15 May 2020.

## FEES PAYABLE TO THE CHAIR OF THE BOARD

The fees payable to the Chair of the Board were reviewed in March 2020 and the Committee resolved that the Chair of the Board's fee should remain unchanged for a second year at £221,900 for 2020-21 in accordance with the decision taken in March 2019 to discount the Chair of the Board fee from the benchmark by 15% to recognise the non-shareholder structure of the Group. Fees and benchmark comparators will be reviewed again by the Committee in 2020-21 when the benchmark data for 2019-20 will be available.

## FEES PAYABLE TO NON-EXECUTIVE DIRECTORS

In March 2020, the Chair of the Board and Executive Directors resolved that the fees for Non-Executive Directors should remain unchanged at £61,650 for a further year in accordance with the decision taken in March 2019 to discount the fees for Non-Executive Directors from the benchmark by 15% to recognise the non-shareholder structure of the Group. The fee for the Senior Independent Director will also remain unchanged at £72,950 for a further year. Fees and benchmark comparators will be reviewed by the Chair of the Board and Non-Executive Directors in 2019-20 when the benchmark data for 2019-20 will be available.

## COVID-19

In response to the impact of the COVID-19 pandemic on the Company's customers and communities, the Executive Directors, Chair of the Board and Non-Executive Directors requested that their respective salaries and fees be reduced by 20% for May, June and July 2020, in order that the value of this reduction could be added to the Company's Community Fund which has funded immediate aid to communities via our supported charities (see page 83).

## ANNUAL VARIABLE PAY SCHEME (AVPS)

The maximum pay that Executive Directors can earn under the AVPS in 2020-21 equates to 100% of base salary. The award of variable pay is assessed across three components under the new scheme, as illustrated in Figure 12.

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

FIGURE 12 AVPS PERFORMANCE MEASURES

|                                        | CUSTOMER SERVICE                                                                                                                                                                                                                                                                                                                                        | OPERATIONAL PERFORMANCE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | STRATEGIC GOALS                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Performance Measures</b>            | <ul style="list-style-type: none"> <li>• C-MeX and</li> <li>• D-MeX (Ofwat's measures of customer service for household and developer customers); and</li> <li>• Business Customer Satisfaction.</li> </ul> <p>Outcome is based on regulatory reward/penalty achieved against Ofwat's Outcome Delivery Incentives for these measures over the year.</p> | <p>Outcome based on total financial rewards/penalties achieved against Ofwat's Outcome Delivery Incentives for 11 measures of in-year performance:</p> <ul style="list-style-type: none"> <li>• Tap water quality</li> <li>• Reliability of supply</li> <li>• Treatment works compliance</li> <li>• Pollution incidents</li> <li>• Bioresources disposal</li> <li>• Bioresources product quality</li> <li>• Sewer flooding to customer properties (internal)</li> <li>• Sewer flooding to customer properties (external)</li> <li>• Total Complaints</li> <li>• Unbilled properties</li> <li>• Water process unplanned outages</li> </ul> | <p>Performance against up to 5 performance commitments from the final determination. For 2019–20 these will be:</p> <ul style="list-style-type: none"> <li>• Employee engagement</li> <li>• Customer trust</li> <li>• Tap water quality</li> <li>• Priority services for customers in vulnerable circumstances</li> <li>• Company level of bad debt</li> </ul> |
| <b>Rationale for selected measures</b> | Linked to the 2020–25 business plan.                                                                                                                                                                                                                                                                                                                    | Linked to the 2020–25 business plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Linked to the 2020–25 business plan.                                                                                                                                                                                                                                                                                                                           |
| <b>Performance Period</b>              | One year                                                                                                                                                                                                                                                                                                                                                | One year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | One year                                                                                                                                                                                                                                                                                                                                                       |
| <b>Performance target</b>              | Three measures with total maximum 40% award.                                                                                                                                                                                                                                                                                                            | 11 measures with total maximum 40% award.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Five measures with total maximum 20% award.                                                                                                                                                                                                                                                                                                                    |

The performance targets under each of the LTVPS awards are described more fully in Figure 13.

FIGURE 13 LTVPS PERFORMANCE MEASURES

|                                        | TOTEX PERFORMANCE                                                                                                                                                                                                                                                                                 | PERFORMANCE DEVELOPMENT                                                                                                                                             |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Performance Measures</b>            | Outturn totex (total expenditure - operating costs and investments).                                                                                                                                                                                                                              | Total financial performance (the outcome of regulatory rewards/penalties) for 17 measures comprising continuous service measures and investment programme measures. |
| <b>Rationale for selected measures</b> | Achieving the target totex and the associated efficiency savings for the period is essential to achieving the Company's long-term goals.                                                                                                                                                          | These measures are essential to achieving the long-term goals set out in Welsh Water 2050.                                                                          |
| <b>Performance Period</b>              | 1 April 2020 – 31 March 2025<br><br>Payment will be made "on account" in each of the first four years of the scheme, depending on progress against the phased profile of the AMP7 plan. No payment will be made for performance above Target, but would be accrued for payment in the final year. |                                                                                                                                                                     |
| <b>Performance target</b>              | 50% of total LTVPS maximum opportunity.                                                                                                                                                                                                                                                           | 50% of total LTVPS maximum opportunity.                                                                                                                             |

**CONTINUOUS SERVICE MEASURES:**

- Acceptability of drinking water (zonal studies)
- Water mains bursts
- Leakage
- Sewer collapses
- Community education
- Visitors to recreational facilities
- Per capita consumption

**INVESTMENT PROGRAMME MEASURES:**

- Lead supply pipes replaced
- Km of river improved
- Surface water removed from sewers
- Combined sewer overflow storage
- Delivery of our reservoir infrastructure safety programme
- Delivery of our Zonal studies programme
- Delivery of outline business case for new Merthyr WTW
- Delivery of full business case for new Merthyr WTW
- Delivery of a new visitor centre in Llanishen, Cardiff
- Delivery of the South Wales water grid scheme

**DISCRETIONS RETAINED BY THE REMUNERATION COMMITTEE**

The targets may be amended in certain circumstances at the discretion of the Committee. When determining the level of any award the Committee may, at its discretion, defer or vary all or part of an award to reflect the overall performance of the Company and avoid formulaic outcomes. The scheme rules allow for clawback of variable pay from Directors, either as the withdrawal of an award before it has vested, or as clawback after awards have vested.

The range of individual measures comprising each of the Continuous Service Measures and the Investment Programme Measures for the purposes of assessing LTVPS performance are shown below.

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

### STRATEGIC ALIGNMENT OF PAY

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. The purpose is set out as follows:

**The purpose of the company is to provide high-quality and better value drinking water and environmental services so as to enhance the wellbeing of its customers and the communities it serves, both now and for generations to come.**

### LINKING REMUNERATION POLICIES TO THE GROUP'S STRATEGY AND PURPOSE

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, as well as being mindful of the impact of our not-for-shareholder-dividend corporate structure and our geographical location, which are both of importance to our wider stakeholder group and aspects taken into account by the Committee.

Pay must be sustainable and must encourage a focus on achieving the longer-term strategy of the Company. It must also be fair to individuals and the wider workforce. Our stakeholders are concerned that remuneration should not reward poor performance and that we should be transparent about the reporting of such performance. This is closely aligned to the Group's vision To Earn the Trust of our Customers Every Day.

### ALIGNMENT WITH WIDER WORKFORCE PAY AND COLLEAGUE ENGAGEMENT

The Remuneration Committee is responsible for setting the remuneration policy for the Executive Directors and Executive team, and

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

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

The performance measures which form the basis of the AVPS for Executive Directors are also the basis of variable pay arrangements throughout the Company.

Pensions benefits are aligned across the Company with everyone receiving the same employer contribution, in line with best practice.

Employees are not specifically consulted on Executive remuneration, however, all employees are encouraged to participate in our annual Employee Engagement survey, which provides valuable insight to the Board on a range of topics, including pay and benefits. Relevant feedback is shared with the Remuneration Committee. In addition, Board and Remuneration Committee members regularly meet with Employee Engagement champions and these meetings provide an opportunity for any issues to be raised with Non-Executive Directors. See page 112 for other examples of Board engagement and site visits undertaken.

### LINK TO THE ANNUAL VARIABLE PAY SCHEMES AND THE COLLEAGUE REWARD SCHEME

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

### ANNUAL VARIABLE PAY SCHEMES

#### AVP FOR SENIOR COLLEAGUES

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

#### COLLEAGUE REWARD SCHEME

The Colleague Reward scheme does not include a personal element and award payment is based entirely on Company performance against the identified key measures.

Maximum opportunity £1,500

Actual Pay-out in 2019–20: £1,500 (Actual Pay-out 2018–19: £1,000).

The payout for the Colleague Reward Scheme in 2019–20 takes account of the efforts of frontline teams in dealing with extreme weather events and COVID-19 impact.

## ENGAGEMENT WITH GLAS MEMBERS

The Remuneration Committee regularly engages with Glas Members on remuneration policy issues and in 2019-20 discussed remuneration in detail with the Members at the AGM before proposing an amendment to the LTVPS to increase the maximum opportunity for the Chief Executive to 100% of base salary. This followed a benchmarking exercise which showed that the Chief Executive salary was significantly below the benchmark, even allowing the 15% discount for our not-for-shareholder corporate structure. In 2019-20, the Board discussed the existing remuneration policy and the proposed changes in detail with Members at the July 2019 AGM, and updated Members at their December 2019 Members' Meeting.

## VOTES AT RECENT ANNUAL GENERAL MEETINGS

### 2019 AGM

|                                                                                                |     |
|------------------------------------------------------------------------------------------------|-----|
| Members present in person or by proxy who voted in favour of the Annual Report on Remuneration | 92% |
| Members who approved the changes to the Remuneration Policy for 2019-20                        | 82% |

### 2018 AGM

|                                                                                      |     |
|--------------------------------------------------------------------------------------|-----|
| Members present in person or by proxy who approved the Annual Report on Remuneration | 98% |
| Members who re-approved the Remuneration Policy for a further period                 | 98% |

### 2017 AGM

|                                                                                      |      |
|--------------------------------------------------------------------------------------|------|
| Members present in person or by proxy who approved the Annual Report on Remuneration | 100% |
|--------------------------------------------------------------------------------------|------|

## ENGAGEMENT WITH OTHER STAKEHOLDERS

The Remuneration Committee is conscious of the Company's position as one of the largest companies in Wales and of the geographic and socio-economic context in which the Company operates. The Committee closely follows guidance from the Financial Reporting Council on the requirements of the UK Corporate Governance Code and from Ofwat on the key objectives of its guidance on Board Leadership, Transparency and Governance.

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

# CORPORATE GOVERNANCE REPORT



## REMUNERATION

### REMUNERATION IN CONTEXT

#### GENDER PAY GAP

When we produced our figures for the Gender Pay Gap this year, we were surprised to see a significant increase on our findings for 2019 compared to 2018. As a result, we reviewed how we were calculating the figures. Our review showed that there were parts of our previous calculations that were incorrect as we were not taking account of salary sacrifice (voluntary deductions from individuals' gross salary under various incentive schemes). To rectify this, this year we have published both the figures for 2019 and revised figures for 2018. The re-calculated 2018 gap was 12.1% (median) and 11% (mean). Our gap (both median and mean) had narrowed by April 2019 primarily due to progression of women into more senior roles in the Company.

The gender pay gap is defined as the overall median and mean gender pay and bonus gap (based on hourly rate of pay at the snapshot date of 5 April 2019 and bonuses paid in the year to 5 April 2019) regardless of role or seniority. We have seen a decrease in both our median and mean Gender Pay Gaps over the year to March 2019 and it is encouraging that our gender pay gap remains significantly lower than the national average.

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 86 within our Responsibility section.

#### DEFINITIONS

**Median** - The difference between the midpoints in the ranges of men's and women's pay

**Mean** - The difference between the average of men's and women's pay

#### MEDIAN GAP

##### National

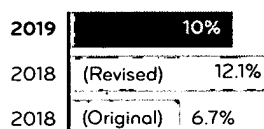


#### MEAN GAP

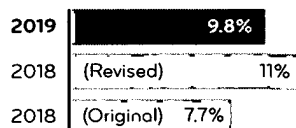
##### National



#### MEDIAN GAP - Welsh Water



#### MEAN GAP - Welsh Water



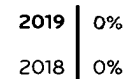
#### BONUS PAY GAP

For this reporting period 88.6% of men and 80.3% of women received a bonus. This was an increase from 86.6% and 76.8% of women, respectively, in the previous reporting period. The mean bonus gap has been reduced in 2019 compared to 2018 narrowing from 21% to 14.9% this year.

#### OUR MEAN BONUS GAP



#### OUR MEDIAN BONUS GAP



Full details of our gender pay

reporting are available on our website [dwrcymru.com/AR2020-genderreport](http://dwrcymru.com/AR2020-genderreport)

### FUTURE FOCUS

Our people are our greatest asset and we are passionate about creating a workforce that reflects the diversity within the communities we serve. We are committed to work to increase the diversity of our workforce and ensure the Company is an inclusive environment where everyone can be themselves at work, and there are no barriers to men and women undertaking any role.

We have sought to ensure that greater numbers of women in senior roles take leading roles as mentors and as role models in the business, including taking part in our International Women's Day and International Women in Engineering Day events.

As part of a wider strategy to promote careers at Welsh Water in local schools and community groups, we have rolled out more work experience placements. We are working with the Welsh Baccalaureate resources, as well as representation at high-profile events such as the STEM Women Careers Fair. We have developed a strong partnership with Education and Engineering Scheme Wales (EESW) in addition to our work with Chwarae Teg to provide opportunities to young women and female leaders at Welsh Water.

We are continuing our membership of the Equality and Human Rights Commissions' Working Forward initiative a network committed to making workplaces the best they can be for pregnant women and new parents. The introduction of Inclusivity Ambassadors will help to promote and assist with the ongoing development and achievement of our Inclusivity Action Plan.

## CHIEF EXECUTIVE'S PAY RATIOS

In previous years we disclosed an illustrative CEO pay ratio comparing CEO pay to average employee pay. This is the first year that we have applied the new CEO Pay Ratio Reporting requirements for UK listed companies which compare CEO's pay to the 25th percentile, median and 75th percentile employees. As part of these requirements we have applied methodology A from the UK Government guidance.

The pay ratio uses the CEO total payments and benefits included in figure 2, page 136.

| Year      | Methodology | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|-----------|-------------|---------------------------|------------------|---------------------------|
| 2019-2020 | A           | 22:1                      | 18:1             | 14:1                      |

The 25th percentile, median and 75th percentile employees were determined on 29th April 2020 using total pay for the year ended 31st March 2020 for all employees as at 31st March 2020. Pay details for the individuals on a full-time equivalent basis are set out below:

| Year 2019 - 2020 | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|------------------|---------------------------|------------------|---------------------------|
| Salary           | 28,963                    | 35,037           | 45,722                    |
| Total pay        | 30,598                    | 38,854           | 49,361                    |

### Methodology notes

- Other than for the Executive Directors, the variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2020.
- Other than for the Executive Directors, pension accrual has been excluded as the figures for the wider workforce were not available at the time of reporting.
- Total payments and benefits have been included on a full-time equivalent annualised basis for new hires, part time employees, unpaid leave relating to long-term sickness and maternity.

The pay ratios reflect our remuneration principles and our approved Remuneration Policy. Total remuneration is considered to be fair and competitive and reflect wider economic conditions, enabling us to attract and retain skills and talent.

## COMMITTEE INDEPENDENCE

The Board considers that all the members of the Remuneration Committee are independent and, in the case of Alastair Lyons, that he was considered to be independent on his appointment as Chair of the Board of the Company.

The Chief Executive Officer and the People and Change Director attend meetings of the Remuneration Committee by invitation (except where their own remuneration is discussed). The Remuneration Committee was convened on six occasions in 2019-20.

During 2018-19, the Committee received independent advice from Mercer and Deloitte LLP. Each of these firms is a signatory to the Remuneration Consultants Group Code of Conduct and any advice given is governed by the Code. The Committee is satisfied that the advice received was independent and objective. The fees payable to Mercer for the period 2019-20 were £11,050 and to Deloitte LLP were £4,250.

Dates of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2020 are as follows:

|                                   |                                            |                                          |                                    |
|-----------------------------------|--------------------------------------------|------------------------------------------|------------------------------------|
| <b>Chris Jones</b><br>4 July 2013 | <b>Alastair Lyons</b><br>1 May 2016        | <b>Tom Crick</b><br>1 October 2017       | <b>Anna Walker</b><br>3 March 2011 |
| <b>Peter Perry</b><br>3 June 2020 | <b>Menna Richards</b><br>22 November 2010  | <b>Graham Edwards</b><br>1 October 2013  | <b>John Warren</b><br>3 May 2012   |
| <b>Mike Davis</b><br>3 June 2020  | <b>Debra Bowen Rees</b><br>5 December 2019 | <b>Joanne Kenrick</b><br>1 November 2015 |                                    |

Enquiries for the inspection by Members of the above service contracts and letters of appointment during the COVID-19 pandemic should be made via email to the Company Secretary at [company.secretary@dwrcymru.com](mailto:company.secretary@dwrcymru.com)

> FOR MORE INFORMATION ON THE ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS, PLEASE SEE PAGE 114.

# DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2020. The performance review of the Company can be found within the Strategic Report on pages 40 to 62. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2020. The Corporate Governance Report set out on pages 98 to 153 is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principle risks and uncertainties facing the Group are set out in the Risk Management section from pages 70 to 77.

## FINANCIAL PERFORMANCE

The Group is in a strong financial position as at 31 March 2020; gearing remains on track at 60% (2018-19: 58%) and we have retained our sector-leading credit ratings. Read more about our financial performance, Taxation, Return of Value "Dividend" to our Customers, Capital Investments, Credit Rating and Interest Management, Gearing Policy and our Liquidity and Financial Reserves within the Financial Review section from pages 65 to 68.

## DIVIDEND POLICY (DŴR CYMRU CYFYNGEDIG)

In March 2016 the Glas Board approved a Dividend Policy to permit up to £100m of funds to be paid intra-Group, outside the regulatory ringfence, in order to enable the funding of commercial projects. No dividends were declared or paid during the year ended 31 March 2020 (2019: none).

## DIRECTORS

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, with the exception of Chris Jones who resigned from the Board on 15 May 2020, are set out on pages 102 to 107. Each Director, including Chris Jones, served throughout the financial year ended 31 March 2020, save for Peter Bridgewater, who stepped down on 31 December 2019, and Mike Davis and Debra Bowen Rees who were appointed to the Board with effect from 1 January 2020.

## DIRECTORS' INDEMNITY

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

## EMPLOYEES

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Further information on the Board's methods for engaging with the workforce are on pages 111 and 112.

## 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 20 to 23, and on page 110, respectively.

## CORPORATE GOVERNANCE

During the year ended 31 March 2020 we have applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code except for part of Provision 41 that relates to engagement with the workforce. Further details can be found in our Governance section on pages 108 to 114.

## AMENDMENT OF ARTICLES OF ASSOCIATION

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's members.

## POLITICAL DONATIONS

It is Board policy not to make donations to political parties or to incur political expenditure. During the year we agreed to make payments of £45,000 to Citizens Advice to fund a debt adviser providing advice to our customers in Rhondda Cynon Taff, and £19,000 to Step Change to support the work the charity does in providing debt advice to our customers. We are disclosing these payments as both organisations also campaign for government policy change, including on debt issues, however, none of the funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require to be disclosed under section 366 of the Companies Act 2006.

### WATER AID AND THE PRINCE'S TRUST

As appropriate for a Company with our corporate structure, we do not engage in corporate sponsorship. However, we continue to support WaterAid and The Prince's Trust.

### PERSONS OF SIGNIFICANT CONTROL

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

### GREENHOUSE GAS EMISSIONS

Due to our commitment to *transparent and best practice* reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on pages 93 to 95 of the Responsibility section of this report alongside our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (*Strategic and Directors' Report*) Regulations 2013.

### AUDITOR

KPMG LLP act as Auditors to Glas Cymru for the accounts for the year ended 31 March 2020. As part of the audit process we have confirmed that, as far as each Director is aware, there is no relevant audit information of which the Auditors are unaware, that they have taken any necessary steps to be made aware of any such information and to establish that the Group's Auditors are aware of that information. We confirm that to the best of our knowledge:

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

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

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

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

### OTHER INFORMATION

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Financial Review on pages 65 to 68.

### ANNUAL GENERAL MEETING (AGM)

The Glas Cymru AGM will be held by video conference on 3 July 2020. The Notice of Meeting together with explanatory notes is contained in the circular to our Members that accompanies the report and accounts.

### GOING CONCERN

The Directors' statement on going concern is on page 174. The financial statements for the year ended 31 March 2020 have been prepared on the going concern basis.

*Nicola Williams*

**Nicola Williams**  
Company Secretary

Company Number 09917809

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the Annual Report and the Financial Statements

**The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.**

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 their profit or loss for that year. In preparing each of the Group and parent Company financial statements, the Directors are required to:

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

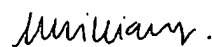
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors have prepared a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

We consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy.

By order of the Board



**Nicola Williams**  
Company Secretary

5 June 2020



# FINANCIAL RESULTS

THIS SECTION CONTAINS THE GROUP'S  
AUDITED FINANCIAL STATEMENTS FOR  
THE FINANCIAL YEAR 2019-2020

---

|                                                   |     |
|---------------------------------------------------|-----|
| Independent Auditor's Report                      | 153 |
| Financial Statements                              |     |
| – Consolidated Income Statement                   | 166 |
| – Consolidated Statement of Comprehensive Income  | 167 |
| – Consolidated Balance Sheet                      | 168 |
| – Consolidated Statement of Changes in Reserves   | 169 |
| – Parent Company Balance Sheet                    | 170 |
| – Parent Company Statement of Changes in Reserves | 171 |
| – Consolidated Cash Flow Statement                | 172 |
| – Parent Company Cash Flow Statement              | 173 |
| Notes to the Financial Statements                 | 174 |



# Independent auditor's report

## to the members of Glas Cymru Holdings Cyfyngedig

### 1. Our opinion is unmodified

We have audited the financial statements of Glas Cymru Holdings Cyfyngedig ("the Company") for the year ended 31 March 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in reserves, parent company balance sheet, parent company statement of changes in reserves, consolidated cash flow statement, parent company cash flow statement and the related notes, including the accounting policies in note 1

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical

responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### Overview

|                                       |                                     |
|---------------------------------------|-------------------------------------|
| <b>Materiality:</b>                   | £11m (2019: £11m)                   |
| group financial statements as a whole | 0.15% (2019: 0.16%) of Total Assets |

|                 |                                   |
|-----------------|-----------------------------------|
| <b>Coverage</b> | 100% (2019: 100%) of Total Assets |
|-----------------|-----------------------------------|

#### Key audit matters vs 2019

|                     |                                                                                              |   |
|---------------------|----------------------------------------------------------------------------------------------|---|
| <b>Event driven</b> | <b>New:</b> Going concern – the impact of uncertainties due to the global spread of COVID-19 | ▲ |
|---------------------|----------------------------------------------------------------------------------------------|---|

|                        |                                                                         |    |
|------------------------|-------------------------------------------------------------------------|----|
| <b>Recurring risks</b> | Group pension obligation and unquoted assets held by the pension scheme | ◀▶ |
|------------------------|-------------------------------------------------------------------------|----|

|                                 |    |
|---------------------------------|----|
| Provision for trade receivables | ◀▶ |
|---------------------------------|----|

|                                                                               |    |
|-------------------------------------------------------------------------------|----|
| Classification of costs between operating expenditure and capital expenditure | ◀▶ |
|-------------------------------------------------------------------------------|----|

|                            |                                                          |    |
|----------------------------|----------------------------------------------------------|----|
| <b>Parent Company only</b> | Valuation of parent company's investment in subsidiaries | ◀▶ |
|----------------------------|----------------------------------------------------------|----|

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, were as follows:

|                                                                                                                                                                                                                    | The risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Going Concern - the impact of uncertainties due to the global spread of Covid-19</b></p> <p><i>Refer to page 126 (Audit Committee Report) and page 174 (accounting policy and financial disclosures)</i></p> | <p><b>Disclosure quality:</b></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, including the impact of Covid-19 and how those risks might affect the Group's and Company's financial resources or ability to continue operations in the foreseeable future.</p> <p>As a result of the Covid-19 pandemic, uncertainty about the immediate outlook for many companies has increased sharply. The risk includes the potential effect on customers and cash collections, the availability of debt and other financing arrangements, the impact on the wider supply chain, and, ultimately, the potential of adversely affecting on the Group's and Company's available financial resources over this period.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Our sector experience:</b> We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used in the cash flow forecasts and the level of downside sensitivities applied using our industry knowledge of Covid-19 risks.</li> <li>— <b>Sensitivity analysis:</b> We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts, taking account of the severe, but plausible adverse effects that could arise from the identified risks individually or collectively and the potential impact on the Group's borrowing covenants.</li> <li>— <b>Funding and liquidity assessment:</b> We obtained relevant loan and swap agreements, agreeing facilities available to the Group and recalculated covenant and liquidity rating compliance and headroom based on management's latest forecasts and those in severe but plausible downside scenarios.</li> <li>— <b>Assessing transparency:</b> We assessed the completeness and accuracy of the matters covered in the going concern disclosures by comparing this to the key assumptions, key sensitivities and mitigating actions considered by the Directors.</li> </ul> |

## 2. Key audit matters: our assessment of risks of material misstatement (continued):

|                                                                                                                                                                                                                                                                                                                             | The risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Group pension obligation and unquoted assets held by the pension scheme</b></p> <p>Present value of obligation (£470.3m; 2019: £488.4m) and Unquoted Assets (£155.0m; 2019 £149.0m):</p> <p><i>Refer to page 126 (Audit Committee Report), page 181 (accounting policy) and page 184 (financial disclosures).</i></p> | <p><b>Subjective estimate:</b></p> <p>Small changes in the assumptions and estimates used to value the group's pension obligation such as discount rates, inflation price, mortality rates would have a significant effect on the group's net pension deficit.</p> <p>There exists a high value of difficult to value assets on unquoted markets, giving rise to complexity in assessing these valuations.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value of group's pension obligation and unquoted assets held the pension scheme have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.</p>                                                                                                                                          | <p>Our procedures over the obligation included:</p> <ul style="list-style-type: none"> <li>— <b>Benchmarking assumptions:</b> with the support of our own actuarial specialists, we challenged the key assumptions applied, being the discount rate, inflation price and mortality rates against externally derived data; and</li> <li>— <b>Assessing transparency:</b> we have considered the adequacy of the group's disclosures in respect of the sensitivity of the deficit to changes in key assumptions.</li> </ul> <p>Our procedures over the unquoted assets included:</p> <ul style="list-style-type: none"> <li>— <b>Tests of details:</b> we have obtained confirmations from the third party expert fund managers and agree to the carrying amount of the assets held by the scheme;</li> <li>— <b>Tests of details:</b> we have agreed audited fund financial statements to fund valuation reports as at the fund year-end to evaluate the historic accuracy of fund valuations; and</li> <li>— <b>Assessing valuer's credentials:</b> we have assessed the competence and objectivity of those experts.</li> </ul>                                                                                                     |
| <p><b>Provision for trade receivables</b></p> <p>Trade receivables: (£558.4m; 2019: £560.3m):</p> <p>Provision for impairment of receivables: (£81.8m, 2019: £78.7m)</p> <p><i>Refer to page 126 (Audit Committee Report), page 180 (accounting policy) and page 183 (financial disclosures).</i></p>                       | <p><b>Subjective estimate:</b></p> <p>The provision for doubtful debts is a significant risk area as a result of the complexity of the calculation, its subjective nature, and because of its size and the fact that any change in the balance sheet provision would directly impact profit.</p> <p>The provision methodology is based upon historic cash collection rates to build an expected loss model. In addition to this, management adjust for items expected to impact future cash collections such as the impact of Covid-19 in order to appropriately estimate bad debt exposure.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that recoverability of trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p> <p>The financial statements (note 1) discloses the sensitivity estimated by the Group.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Methodology implementation:</b> we have assessed whether the calculation incorporated the appropriate information, risks and data including historical cash collections and write offs, to estimate the level of irrecoverable debt, based on our knowledge of the group and the industry;</li> <li>— <b>Sector experience:</b> we have challenged the directors' assumptions over the cash collection profiles based on our knowledge of the market, historical trends, operational performance and economic trends;</li> <li>— <b>Sector experience:</b> we have challenged the directors' assumptions over the impact of Covid-19 on future cash collections based on historical unemployment data and its correlation with cash collections;</li> <li>— <b>Sensitivity Analysis:</b> we have performed sensitivity analysis on the assumptions made, in particular future cash collection rates, and compared the impact on the level of the provision;</li> <li>— <b>Assess transparency:</b> we have assessed the adequacy of the group's disclosures about the degree of estimation uncertainty involved in calculating the provision.</li> </ul> |

## 2. Key audit matters: our assessment of risks of material misstatement (continued):

|                                                                                                                                                                                                                                                                                                         | The risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Classification of costs between operating expenditure and capital expenditure</b></p> <p>PPE Additions net of grants and contributions: (£388.1m; 2019: £372.2m)</p> <p><i>Refer to page 126 (Audit Committee Report), page 179 (accounting policy) and page 185 (financial disclosures).</i></p> | <p><b>Accounting treatment:</b></p> <p>The group incurs a high level of expenditure on PPE ("property, plant and equipment"), including repair and maintenance, and enhancement costs.</p> <p>There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure, on both infrastructure and non-infrastructure assets, meet the relevant criteria for capitalisation and therefore are included in the carrying value of PPE, or alternatively should be expensed immediately.</p> <p>Third party experts are engaged to assist the directors in their assessment of the expenditure to be capitalised on infrastructure assets which are more judgemental in nature.</p> <p>There is a risk that costs could be inappropriately capitalised, based on the judgements made by directors in respect of non-infrastructure and infrastructure expenditure.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Accounting analysis:</b> assessed the group's capitalisation policy against the requirements of the accounting standards;</li> <li>— <b>Sector experience:</b> on a sample basis, we have challenged the judgements made by both the group (non-infrastructure expenditure) and the independent third party engaged by the group (infrastructure expenditure) over the capitalisation based on the group's accounting policies, knowledge of the sector and underlying nature of the projects; and</li> <li>— <b>Assess expert credentials:</b> we have assessed the third party expert's competence to perform this assessment of capital expenditure by considering their sector experience with reference to previous industry projects and the method used.</li> </ul> |
| <p><b>Valuation of parent company's investment in subsidiaries</b></p> <p>Investment in subsidiaries: (£3,875.2m; 2019: £3,833.5m):</p> <p><i>Refer to page 178 (accounting policy) and page 184 (financial disclosures).</i></p>                                                                       | <p><b>Forecast based valuation:</b></p> <p>The valuation of the parent company's investment in subsidiaries are stated at fair value. The fair value is calculated using a discounted cash flow model.</p> <p>The judgements relate to the future cash flow forecasts and the use of the company's Regulatory Capital Value (RCV) as its terminal value are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value of the parent company's investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>                                                                                                                                        | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Methodology implementation:</b> assessed whether the calculation incorporates the appropriate inputs including reasonable forecasts and assumptions about the future prospects of the subsidiaries;</li> <li>— <b>Historical comparisons:</b> evaluated the director's forecasting ability by comparing previous forecasts to actual results;</li> <li>— <b>Benchmarking assumptions:</b> assessed the valuation method based on recent prices paid for similar companies within the industry, with a focus on the multiple of OFWAT reported RCV used; and</li> <li>— <b>Our sector experience:</b> assessed the discount rate used in the discounted cash flow with reference to the Ofwat regulatory cost of capital.</li> </ul>                                        |

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £11m, determined with reference to a benchmark of group's total assets, of which it represents 0.15% (2019: 0.16%).

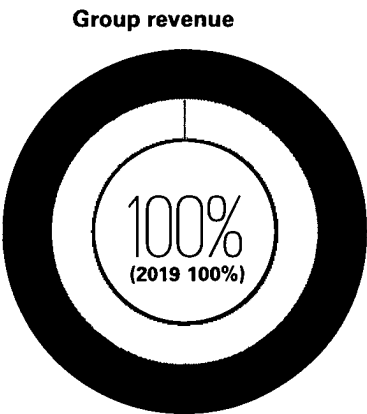
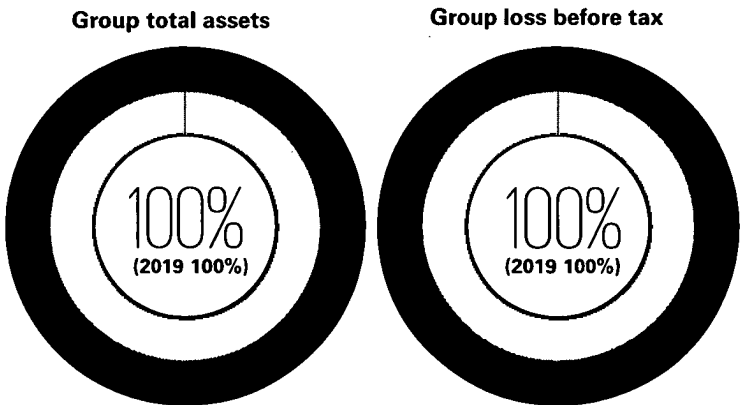
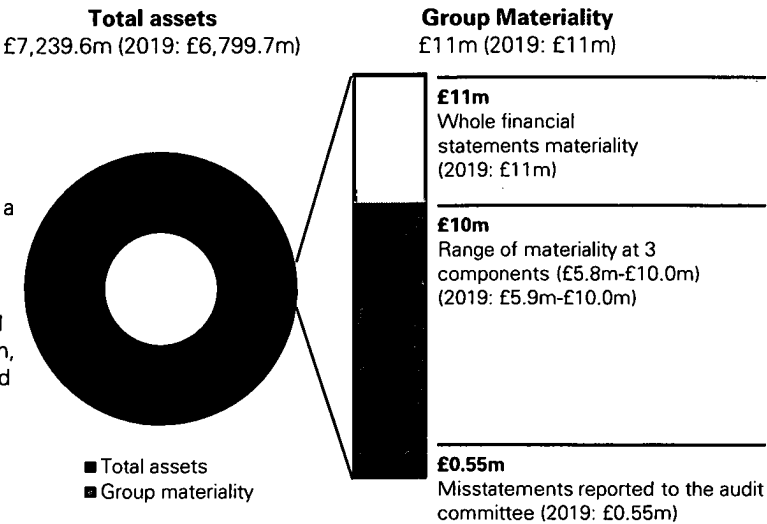
Materiality for the parent company financial statements as a whole was set at £5.8m (2019: £5.9m), determined with reference to a benchmark of parent company total assets, of which it represents 0.15% (2019: 0.15%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.55m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 12 (2019: 12) components, we subjected 3 (2019: 3) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team approved the component materialities, which ranged from £5.8m to £10.0m (2019: £5.9m to £10.0m), having regard to the mix of size and risk profile of the Group across the components. The work on all of the components, including the audit of the parent company, was performed by the Group team.



- Full scope for group audit purposes 2020
- Full scope for group audit purposes 2019

#### 4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- The related statement given as if the Listing Rules applied set out on page 78 is materially consistent with our audit knowledge.

We have nothing to report in these respects.

#### 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### *Strategic report and directors' report*

Based solely on our work on the other information:

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

#### *Directors' Remuneration Report*

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### *Disclosures of emerging and principal risks and longer-term viability*

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the long-term viability statement (page 78) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the terms of our engagement we are required to review the Long-term viability statement as if the Listing Rules applied. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

### *Corporate governance disclosures*

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

#### **6. We have nothing to report on the other matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

#### **7. Respective responsibilities**

##### *Directors' responsibilities*

As explained more fully in their statement set out on page 156, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### **8. The purpose of our audit work and to whom we owe our responsibilities**

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



**James Ledward (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

3 Assembly Square,  
Britannia Quay,  
Cardiff  
CF10 4AX

**5 June 2020**



## CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2020

|                                                       | Note | 2020<br>£m | 2019<br>£m |
|-------------------------------------------------------|------|------------|------------|
| <b>Continuing activities</b>                          |      |            |            |
| Revenue                                               |      | 779.2      | 781.6      |
| <b>Operating costs:</b>                               |      |            |            |
| Operational expenditure                               | 3    | (325.9)    | (336.0)    |
| Exceptional item                                      | 3    | (10.5)     | -          |
| Infrastructure renewals expenditure                   | 3    | (96.5)     | (83.9)     |
| Depreciation and amortisation                         | 3    | (316.2)    | (293.0)    |
|                                                       | 3    | (749.1)    | (712.9)    |
| <b>Operating profit</b>                               | 3    | 30.1       | 68.7       |
| Profit on disposal of fixed assets                    |      | 0.4        | 0.2        |
| <b>Profit before interest</b>                         |      | 30.5       | 68.9       |
| <b>Financial expenses:</b>                            |      |            |            |
| Financial income                                      | 4a   | 6.2        | 5.0        |
| Financial expenses                                    | 4a   | (164.3)    | (168.6)    |
| Fair value losses on derivative financial instruments | 4b   | (48.3)     | (29.2)     |
|                                                       |      | (206.4)    | (192.8)    |
| <b>Loss before taxation</b>                           |      | (175.9)    | (123.9)    |
| <b>Taxation</b>                                       | 5    | 7.1        | 20.8       |
| <b>Loss for the year</b>                              |      | (168.8)    | (103.1)    |

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present the parent Company's income statement. The profit of the parent Company for the year to 31 March 2020 was £1.0m (2019: £1.1m).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2020

|                                                              | Note | 2020<br>£m     | 2019<br>£m |
|--------------------------------------------------------------|------|----------------|------------|
| <b>Loss for the year</b>                                     |      | <b>(168.8)</b> | (103.1)    |
| <b>Items that will not be reclassified to profit or loss</b> |      |                |            |
| Actuarial loss recognised in the pension scheme              | 21   | (0.9)          | (19.9)     |
| Related deferred tax                                         | 6    | 0.2            | 2.6        |
| Revaluation of property, plant and equipment                 | 7    | 132.0          | 132.2      |
| Related deferred tax                                         | 6    | (52.1)         | (22.5)     |
| Total items that will not be reclassified to profit or loss  |      | 79.2           | 92.4       |
| <b>Total comprehensive loss for the year</b>                 |      | <b>(89.6)</b>  | (10.7)     |

# CONSOLIDATED BALANCE SHEET

as at 31 March 2020

|                                    | Note | 2020<br>£m       | 2019<br>£m       |
|------------------------------------|------|------------------|------------------|
| <b>Assets</b>                      |      |                  |                  |
| <b>Non-current assets</b>          |      |                  |                  |
| Property, plant and equipment      | 8    | 5,762.3          | 5,536.7          |
| Intangible assets                  | 9    | 192.2            | 175.1            |
| Trade and other receivables        | 11   | 0.8              | 0.9              |
| Other financial assets:            |      |                  |                  |
| derivative financial instruments   | 15   | 0.2              | 3.8              |
|                                    |      | 5,955.5          | 5,716.5          |
| <b>Current assets</b>              |      |                  |                  |
| Inventories                        |      | 4.0              | 4.0              |
| Trade and other receivables        | 11   | 576.5            | 573.5            |
| Cash and cash equivalents          | 12   | 667.4            | 501.1            |
| Other financial assets:            |      |                  |                  |
| derivative financial instruments   | 15   | 36.2             | 4.6              |
|                                    |      | 1,284.1          | 1,083.2          |
| <b>Total assets</b>                |      | <b>7,239.6</b>   | <b>6,799.7</b>   |
| <b>Liabilities</b>                 |      |                  |                  |
| <b>Current liabilities</b>         |      |                  |                  |
| Trade and other payables           | 13   | (562.7)          | (558.2)          |
| Provisions                         | 17   | (6.4)            | (4.0)            |
| Other financial liabilities:       |      |                  |                  |
| - borrowings                       | 14   | (412.8)          | (195.4)          |
| - derivative financial instruments | 15   | (28.3)           | (27.7)           |
|                                    |      | (1,010.2)        | (785.3)          |
| <b>Net current assets</b>          |      | <b>273.9</b>     | <b>297.9</b>     |
| <b>Non-current liabilities</b>     |      |                  |                  |
| Trade and other payables           | 13   | (314.4)          | (264.7)          |
| Employee benefits                  | 21   | (87.4)           | (96.2)           |
| Provisions                         | 17   | (7.9)            | (2.6)            |
| Other financial liabilities:       |      |                  |                  |
| - borrowings                       | 14   | (3,706.1)        | (3,570.3)        |
| - derivative financial instruments | 15   | (482.7)          | (406.9)          |
| Deferred tax - net                 | 6    | (486.9)          | (440.1)          |
|                                    |      | (5,085.4)        | (4,780.8)        |
| <b>Total liabilities</b>           |      | <b>(6,095.6)</b> | <b>(5,566.1)</b> |
| <b>Net assets</b>                  |      | <b>1,144.0</b>   | <b>1,233.6</b>   |
| <b>Reserves</b>                    |      |                  |                  |
| Revaluation reserve                | 7    | 1,203.7          | 1,189.5          |
| Retained earnings                  |      | (59.7)           | 44.1             |
| <b>Total reserves</b>              |      | <b>1,144.0</b>   | <b>1,233.6</b>   |

The financial statements on pages 166 to 208 were approved by the Board of Directors on 5 June 2020 and were signed on its behalf by:



**P Perry**  
Chief Executive Officer



**Mike Davis**  
Chief Financial Officer

## CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

for the year ended 31 March 2020

|                               | Revaluation<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>reserves<br>£m |
|-------------------------------|------------------------------|----------------------------|-------------------------|
| At 1 April 2018               | 1,142.8                      | 101.5                      | 1,244.3                 |
| Loss for the year             | -                            | (103.1)                    | (103.1)                 |
| Actuarial loss net of tax     | -                            | (17.3)                     | (17.3)                  |
| Revaluation net of tax        | 109.7                        | -                          | 109.7                   |
| Transfer to retained earnings | (63.0)                       | 63.0                       | -                       |
| At 31 March 2019              | 1,189.5                      | 44.1                       | 1,233.6                 |
| Loss for the year             | -                            | (168.8)                    | (168.8)                 |
| Actuarial loss net of tax     | -                            | (0.7)                      | (0.7)                   |
| Revaluation net of tax        | 79.9                         | -                          | 79.9                    |
| Transfer to retained earnings | (65.7)                       | 65.7                       | -                       |
| <b>At 31 March 2020</b>       | <b>1,203.7</b>               | <b>(59.7)</b>              | <b>1,144.0</b>          |

## PARENT COMPANY BALANCE SHEET

as at 31 March 2020

|                               | Note | 2020<br>£m | 2019<br>£m |
|-------------------------------|------|------------|------------|
| <b>Assets</b>                 |      |            |            |
| <b>Non-current assets</b>     |      |            |            |
| Investment in subsidiaries    | 10   | 3,875.2    | 3,833.5    |
| Other financial assets:       |      |            |            |
| – loans to Group undertakings | 11   | 21.6       | 21.6       |
|                               |      | 3,896.8    | 3,855.1    |
| <b>Current assets</b>         |      |            |            |
| Trade and other receivables   |      | 2.2        | 1.3        |
| Cash and cash equivalents     | 12   | 8.7        | 8.6        |
|                               |      | 10.9       | 9.9        |
| <b>Net assets</b>             |      | 3,907.7    | 3,865.0    |
| <b>Reserves</b>               |      |            |            |
| Retained earnings             |      | 32.6       | 31.6       |
| Revaluation reserve           |      | 3,875.1    | 3,833.4    |
| <b>Total reserves</b>         |      | 3,907.7    | 3,865.0    |

The financial statements on pages 166 to 208 were approved by the Board of Directors on 5 June 2020 and were signed on its behalf by:



**P Perry**  
Chief Executive Officer



**Mike Davis**  
Chief Financial Officer

## PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

for the year ended 31 March 2020

|                     | Revaluation<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>reserves<br>£m |
|---------------------|------------------------------|----------------------------|-------------------------|
| At 1 April 2018     | 3,398.0                      | 30.5                       | 3,428.5                 |
| Profit for the year | -                            | 1.1                        | 1.1                     |
| Revaluation         | 435.4                        | -                          | 435.4                   |
| At 31 March 2019    | 3,833.4                      | 31.6                       | 3,865.0                 |
| Profit for the year | -                            | 1.0                        | 1.0                     |
| Revaluation         | 41.7                         | -                          | 41.7                    |
| At 31 March 2020    | 3,875.1                      | 32.6                       | 3,907.7                 |

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2020

|                                                                       | Note | 2020<br>£m     | 2019<br>£m     |
|-----------------------------------------------------------------------|------|----------------|----------------|
| <b>Cash flow from operating activities</b>                            |      |                |                |
| Cash generated from operations                                        | 18a  | 340.7          | 361.0          |
| Interest paid                                                         | 18b  | (136.7)        | (132.7)        |
| Income tax received                                                   |      | 2.1            | 0.5            |
| <b>Net cash flow from operating activities</b>                        |      | <b>206.1</b>   | <b>228.8</b>   |
| <b>Cash flow from investing activities</b>                            |      |                |                |
| Interest received                                                     |      | 6.1            | 4.9            |
| Purchase of property, plant and equipment                             |      | (337.0)        | (354.5)        |
| Purchase of intangible assets                                         |      | (46.1)         | (48.5)         |
| Proceeds from sale of plant and equipment                             |      | 0.6            | 0.9            |
| Grants and contributions received                                     |      | 24.6           | 19.3           |
| <b>Net cash outflow from investing activities</b>                     |      | <b>(351.8)</b> | <b>(377.9)</b> |
| <b>Net cash flow before financing activities</b>                      |      | <b>(145.7)</b> | <b>(149.1)</b> |
| <b>Cash flows from financing activities</b>                           |      |                |                |
| Repayment of borrowings                                               |      | (139.3)        | -              |
| Increase in borrowings                                                |      | -              | 134.2          |
| Bond issue                                                            |      | 500.0          | -              |
| Bond issue costs                                                      |      | (7.2)          | -              |
| Long-term loans received                                              |      | -              | 250.0          |
| Term loan repayments                                                  |      | (29.2)         | (21.6)         |
| Payment of lease liabilities (2019: finance lease principal payments) |      | (12.3)         | (0.9)          |
| <b>Net cash flow from financing activities</b>                        |      | <b>312.0</b>   | <b>361.7</b>   |
| <b>Increase in cash and cash equivalents</b>                          | 19b  | <b>166.3</b>   | <b>212.6</b>   |
| Cash and cash equivalents at 1 April                                  |      | 501.1          | 288.5          |
| <b>Cash and cash equivalents at 31 March</b>                          | 12   | <b>667.4</b>   | <b>501.1</b>   |

## PARENT COMPANY CASH FLOW STATEMENT

for the year ended 31 March 2020

|                                                  | Note | 2020<br>£m | 2019<br>£m |
|--------------------------------------------------|------|------------|------------|
| <b>Cash flow from investing activities</b>       |      |            |            |
| Interest received                                |      | 0.1        | -          |
| Long-term loan to subsidiary                     |      | -          | -          |
| <b>Net cash flow from investing activities</b>   |      | <b>0.1</b> | <b>-</b>   |
| <b>Net increase in cash and cash equivalents</b> |      | <b>0.1</b> | <b>-</b>   |
| <b>Cash and cash equivalents at 1 April</b>      |      | <b>8.6</b> | <b>8.6</b> |
| <b>Cash and cash equivalents at 31 March</b>     | 12   | <b>8.7</b> | <b>8.6</b> |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES

#### ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020

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 Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

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 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (Adopted IFRSs). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, other financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 183.

#### BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-group transactions and profits are eliminated on consolidation.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are de-consolidated from the date on which control ceases.

The Company financial statements present information about the Company as a separate entity and not about its Group.

#### GOING CONCERN

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

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of the COVID-19 pandemic on the Group.

This baseline plan assumes that lockdown is lifted in early June and social distancing continues into the autumn, with gradual lifting of restrictions. Unemployment is assumed to be around 10%, recovering to pre-pandemic levels by 2023; CPIH falls to an average of 1.5% during 2020 and recovers to the government's long-term target of 2% by December 2021. The estimated impacts on turnover in 2020/21 are an £11m reduction in non-household revenues (6%, demand-driven), offset by an increase in household revenues of circa £8m – a net reduction of £3m (however under regulatory mechanisms lost revenues are recoverable in future years).

This baseline plan has then been subject to a further more extreme downside stress scenario, which assumes an additional drop in CPIH below 1%, recovering to 2% by March 2023 and unemployment at around 12%. Consequential impacts on the Group's cost base are greater pressure on bad debts (circa £9m per annum through to 2022/23) and delays in the delivery of cost efficiencies in 2020/21 (£9 million), as well as further reductions in revenues.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within rating agencies' guidance for our current ratings.

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

#### CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 2019:

- Annual improvements to IFRS Standards 2015–2017 Cycle
- IFRS 16 'Leases'.
- Amendments to IAS 19 'Employee Benefits' which clarifies the accounting for defined benefit plan amendments, curtailments and settlements.
- Amendment to IAS 28 'Investments in associates and joint ventures' which clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied.
- Amendments to IFRS 9 'Financial Instruments' which clarifies the treatment of financial assets with prepayment features with negative compensation.
- Interpretation 23 'Uncertainty over Income Tax Treatments' which explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent Company, except for the adoption of IFRS 16 'Leases' where the impact of adoption of this new standard is set out below:

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES *continued*

#### IFRS 16 LEASES

IFRS 16 revises the treatment of leases in financial statements and largely eliminates the accounting distinction between operating and finance leases.

The Directors have assessed the impact of adopting IFRS 16 and have used the modified retrospective approach on first time adoption, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The application of IFRS 16 in the year to 31 March 2020 has resulted in the recognition of a £1.4m right-of-use asset (included in property, plant and equipment) and associated lease liability (included in other financial liabilities: borrowings) where previously under IAS 17 there were none, along with a small reduction in operating costs and increase in depreciation in the income statement (£0.2m). In addition, assets held under finance leases on the consolidated balance sheet have been reclassified as right-of-use assets with effect from 1 April 2019.

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

The Group, applying the practical expedients on a lease-by-lease basis to its portfolio of leases, has elected not to recognise the right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment.

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

#### IFRS 16 'LEASES' ACCOUNTING POLICY

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

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

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

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

- did not recognise right of use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right of use assets and liabilities for leases of low value assets (e.g. IT equipment);

- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

#### PREVIOUS ACCOUNTING POLICY UNDER IAS 17 (APPLYING TO 2019 DISCLOSURES)

Certain assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases). These assets are capitalised and included in 'property, plant and equipment' with the corresponding liability to the lessor included within 'other financial liabilities – borrowings'. Leasing payments consist of a capital element and a finance charge; the capital element reduces the obligation to the lessor and the finance charge is recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

#### FUTURE CHANGES TO ACCOUNTING STANDARDS

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

##### Standards

- IFRS 17 – Insurance Contracts

##### Amendments

- IAS 1 – Presentation of Financial Statements
- IFRS 3 – Business Combinations
- IFRS 10 – Consolidated Financial Statements
- IFRS 17 – Insurance contracts
- Conceptual framework

The Directors anticipate that the adoption of these Standard and Amendments in future periods will have no material impact on the financial statements of the Group or parent Company.

#### REVENUE RECOGNITION

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

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The Group recognises that contracts with customers are, in a majority of cases, governed by legislative requirements rather than discrete commercial arrangements. As a result, the application of judgement is important in determining the most appropriate treatment of certain income streams. The key consideration in respect of the Group's activities is where revenues from bundled goods and services require separation, which may result in deferring or recognising revenue immediately. Our core water and sewerage supply services (including retail) constitute more than 95% of total income, and there is a clear performance obligation satisfied over a measured period of time; however, there are some peripheral income streams which do require more in-depth consideration. All water companies have a legal obligation to allow third parties to establish an authorised connection to their networks and a number of activities may be necessary in order to achieve this, giving rise to the following transactions and accounting treatments under IFRS 15:

**Connection charges:** these are amounts received from developers for connection to the network which we 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; we 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.

---

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES *continued*

#### SEGMENT REPORTING

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

#### EXCEPTIONAL ITEMS

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

#### INVESTMENTS

The Company's investments comprise equity holdings in wholly owned subsidiaries, as set out in note 10. These are stated at fair value with any resultant gain or loss being recognised directly in equity, in the revaluation reserve (note 7).

The fair value has been calculated using a discounted cash flow technique, alongside considering observable market transactions, with reference to the Group's weighted average cost of capital.

#### BUSINESS COMBINATIONS

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

## PROPERTY, PLANT AND EQUIPMENT

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

As at 31 March 2020 the total value of tangible and intangible fixed assets has been revalued to the 'shadow RCV' (Regulatory Capital/Asset Value) of Dŵr Cymru Cyfyngedig, being the 31 March 2020 RCV published by Ofwat in its PR19 Final Determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

Property, plant and equipment comprise:

- a. Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- b. Other assets (including properties, ground operational structures and equipment, and fixtures and fittings).

## INFRASTRUCTURE ASSETS

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

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

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

## OTHER ASSETS

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 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. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

#### INTANGIBLE ASSETS

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

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

#### LEASED ASSETS

IFRS 16, Leases is effective for accounting periods beginning on or after 1 January 2019 and has been applied in these financial statements. This standard revises the treatment of leases in financial statements and largely eliminates the accounting distinction between operating and finance leases, requiring instead that "right-of-use" assets are recognised on the balance sheet with a corresponding liability. Further details, including the previous and new accounting policies, are provided in note 1 under "Changes in accounting policies and disclosures".

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

#### GRANTS AND CUSTOMER CONTRIBUTIONS

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets.

Grants in respect of revenue expenditure are credited to the income statement over the same period as the related expenditure is incurred.

#### CAPITAL EXPENDITURE PROGRAMME INCENTIVE PAYMENTS

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

#### TRADE RECEIVABLES

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

#### CASH AND CASH EQUIVALENTS

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

## PENSION COSTS

### 1) DEFINED BENEFIT SCHEME

The Group operates a defined benefit scheme, the DCWW Pension Scheme, which was closed to future accrual from 1 April 2017 for all members except for 18 ESPS section members. The scheme is funded by employer contributions as well as employee contributions from the remaining active members. Contribution rates are based on the advice of a professionally qualified actuary and actuarial valuations of the scheme was carried out at 31 March 2019.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement.

### 2) DEFINED CONTRIBUTION SCHEME

The Group operates a defined contribution scheme, the DCWW Group Personal Pension Plan, which all employees are eligible to join. Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

## OTHER FINANCIAL LIABILITIES

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

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

Derivative instruments utilised by the Group are interest rate swaps, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Group. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2020, none of the Group's derivatives qualified for hedge accounting (2019: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

## TAXATION

The Group continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we pay to fund it have the effect of delaying corporation tax payments to future periods.

Income tax for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES *continued*

#### DEFERRED TAXATION

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

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

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

#### PROVISIONS

Provisions for restructuring costs, uninsured losses and billing disputes are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the Group receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

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

#### FINANCING RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

#### CREDIT RISK

The Group has a prudent policy for investing cash and short-term bank deposits set by the bond documentation within the Common Terms Agreement. Deposits can be placed with our Account Bank for overnight risk only or for up to one year with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. Deposits of over one year are placed with counterparties that have a minimum long-term rating of AA-/Aa3/AA-.

In practice, the Group has adopted a more prudent approach to cash management and timed deposits are placed for a maximum of 35 days with banks subject to minimum long-term rating criteria of A-/A3/A-. Bonds can be purchased from certain AA-rated counterparties with maturities of up to one year and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. The maximum cash investment with a single counterparty was £100m (2019: £75m).

#### INTEREST RATE RISK

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

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £4,055m as at 31 March 2020 (2019: £3,715m) none related to floating rate debt (2019: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2020, 100% (2019: 100%) of the Group's gross debt was at fixed or index-linked ('RPI') rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are economic in nature, but do not satisfy the 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 £475m in the balance sheet at 31 March 2020 (2019: £426m) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.

#### POWER PRICE HEDGES

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

#### REFINANCING RISK

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £4,055m (2019: £3,715m) can fall due in any 24-month period.

#### LIQUIDITY RISK

The Group maintains committed banking facilities in order to provide flexibility in the management of its liquidity.

Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months. As at 31 March 2020, the Group had committed undrawn borrowing facilities of £170m (2019: £170m) and cash and cash equivalents (excluding debt service payments account) of £657m (2019: £348m).

The undrawn facilities of £170m of revolving credit facilities are available until November 2020. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2020 there was also a special liquidity facility of £135m (2019: £135m); this is required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

#### CAPITAL RISK

The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, the Group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value and linked to the movements in the Retail Prices Index as determined by Ofwat. As at 31 March 2020 this regulatory gearing was 60% (2019: 58%).

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

#### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The probability of failing to recover a debt is based on expected credit loss, determined by past experience and expected future movements in collection rates, adjusted for changes in external factors (including the estimated impact of the COVID-19 pandemic). The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by £3.6m (2019: £3.5m).

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES *continued*

#### PENSION BENEFITS

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, price inflation and mortality rates, which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high-quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2020 would increase or reduce by £8.7m (2019: £9.0m).

If the scheme's assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. With the exception of cash, assets consist of pooled investment funds, alternative strategy funds and property funds which are not quoted on an active market. Of total assets amounting to £388m (2019: £397m), assets with a fair value of £147m (2019: £149m) 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. A 5% movement in the fair value of these Level 3 financial assets would increase or decrease the overall carrying value of the pension liability by £7.4m (2019: £7.3m). (See also note 21)

#### PARENT COMPANY'S INVESTMENT IN SUBSIDIARIES

Glas Cymru Holdings Cyfyngedig's investment in its subsidiaries is reported at fair value, using a discounted cash flow approach with reference to projected revenues and expenditure, the weighted average cost of capital and the Company's regulatory capital value, all of which are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows (including taking into account the estimated impact of the COVID-19 pandemic). A 0.1% change in the discount rate used would increase or decrease the valuation by £113m (2019: £118m). (See also note 10).

#### FAIR VALUE ESTIMATION

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

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

**Level 3:** inputs for the asset or liability not based on observable market data.

All of the Group's treasury derivatives are categorised as Level 2. In accordance with IFRS 13 an adjustment factor has been applied to the swaps based on industry standard practice to take into account credit risk.

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

As at 31 March 2020 the fair values of derivatives were as follows:

##### LEVEL 2:

**Assets:** trading derivatives £0.1m, treasury derivatives £36.1m (2019: trading derivatives £2.5m, treasury derivatives £3.5m).

**Liabilities:** trading derivatives £1.2m treasury derivatives £508.9m (2019: trading derivatives £0.2m, treasury derivatives £433.8m).

##### LEVEL 3:

**Assets:** trading derivatives £0.2m, treasury derivatives £nil (2019: trading derivatives £2.4m, treasury derivatives £nil).

**Liabilities:** trading derivatives £0.9m treasury derivatives £nil (2019: trading derivatives £0.6m, treasury derivatives £nil).

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

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

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

### CAPITALISATION

There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure on both infrastructure and non-infrastructure assets meet the relevant criteria for capitalisation (directly attributable to the asset, provide probable economic benefit and can be measured reliably) and therefore are included in the valuation of property, plant and equipment, or alternatively should be expensed immediately. This is monitored continually through a process of capital programme cost challenge and operating cost scrutiny, complemented by a third-party analysis of the capital programme breakdown between maintenance costs charged to the income statement and property, plant and equipment additions to the balance sheet.

## 2. SEGMENTAL INFORMATION

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

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

| Group                          | 2020<br>£m   | 2019<br>£m   |
|--------------------------------|--------------|--------------|
| <b>Regulated revenue</b>       |              |              |
| Water                          | 322.8        | 320.9        |
| Sewerage                       | 394.0        | 399.9        |
| Retail                         | 55.3         | 52.7         |
| <b>Total regulated revenue</b> | <b>772.1</b> | <b>773.5</b> |
| Other (non-regulated)          | 7.1          | 8.1          |
| <b>Total revenue</b>           | <b>779.2</b> | <b>781.6</b> |

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.

## NOTES TO THE FINANCIAL STATEMENTS

## 3. OPERATING PROFIT

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

| Group                                              | 2020<br>£m   | 2019<br>£m   |
|----------------------------------------------------|--------------|--------------|
| <b>Operating expenditure</b>                       |              |              |
| Power                                              | 46.3         | 46.3         |
| Chemicals                                          | 11.3         | 11.2         |
| Materials and equipment                            | 5.8          | 6.0          |
| Vehicles and plant                                 | 8.2          | 8.2          |
| Office expenses                                    | 6.7          | 10.0         |
| Property costs                                     | 4.2          | 3.9          |
| Insurance                                          | 4.9          | 4.1          |
| Water and sewerage contractors                     | 19.8         | 23.8         |
| Laboratories and analytical services               | 0.8          | 0.9          |
| Collection commissions                             | 2.7          | 3.4          |
| IT contracts                                       | 14.0         | 10.0         |
| Bought-in services and other costs                 | 40.8         | 48.4         |
| Employee costs (note 20)                           | 165.8        | 159.6        |
| Staff costs capitalised                            | (69.6)       | (60.3)       |
| Research and development credit                    | (1.3)        | (0.5)        |
| Trade receivables impairment                       | 25.2         | 21.0         |
| Rates                                              | 24.2         | 24.2         |
| Natural Resources Wales/Environment Agency charges | 15.6         | 15.4         |
| Fees payable to Auditors                           | 0.5          | 0.4          |
| <b>Total operational expenditure</b>               | <b>325.9</b> | <b>336.0</b> |
| Exceptional item                                   | 10.5         | -            |
| Infrastructure renewals expenditure                | 96.5         | 83.9         |
| <b>Depreciation and amortisation</b>               |              |              |
| Depreciation of property plant and equipment       | 294.3        | 279.1        |
| Release of deferred income                         | (7.1)        | (5.8)        |
| Amortisation of intangible assets                  | 29.0         | 19.7         |
| <b>Total depreciation and amortisation</b>         | <b>316.2</b> | <b>293.0</b> |
| <b>Total operating costs</b>                       | <b>749.1</b> | <b>712.9</b> |

**3. OPERATING PROFIT** *continued***SERVICES PROVIDED BY THE GROUP'S AUDITORS**

During the year, the Group obtained the following services from its statutory auditors:

| <b>Group</b>                                                   | <b>2020<br/>£000</b> | <b>2019<br/>£000</b> |
|----------------------------------------------------------------|----------------------|----------------------|
| <b>Audit fees</b>                                              |                      |                      |
| Audit of parent Company and consolidated financial statements  | 28                   | 20                   |
| Audit of subsidiary companies                                  | 222                  | 150                  |
| <b>Total audit fees</b>                                        | <b>250</b>           | <b>170</b>           |
| <b>Audit-related assurance services</b>                        |                      |                      |
| Review of interim financial statements                         | 21                   | 25                   |
| Regulatory audit services pursuant to legislation              | 53                   | 51                   |
| Regulatory price review assurance work                         |                      | 41                   |
| Investor report reviews                                        | 8                    | 8                    |
| Environment Agency levy assurance work                         | 6                    | 3                    |
| Bond issuance assurance work                                   | 38                   | -                    |
| <b>Total audit and audit-related assurance services</b>        | <b>376</b>           | <b>298</b>           |
| <b>Other services</b>                                          |                      |                      |
| Tax iXRBL document tagging                                     | 5                    | 7                    |
| Pensions advice                                                | 62                   | 71                   |
| Direct Procurement for Customers project assessment            | 37                   | 72                   |
| <b>Total other services</b>                                    | <b>104</b>           | <b>150</b>           |
| <b>Total cost of services provided by the Group's auditors</b> | <b>480</b>           | <b>448</b>           |

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

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

**EXCEPTIONAL ITEM**

Glas Cymru's final business plan for the regulatory period 2020 to 2025 included restructuring plans to meet a challenging cost efficiency target, reflected in Ofwat's PR19 Final Determination published on 16 December 2019. As a consequence, £10.5m of restructuring costs, associated with a headcount reduction of around 200 during AMP7 but recognised in the year to 31 March 2020, are considered exceptional by nature and have been disclosed separately in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

## 4. FINANCING COSTS

## A) FINANCE COST BEFORE FAIR VALUE LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

| Group                                                                   | 2020<br>£m | 2019<br>£m |
|-------------------------------------------------------------------------|------------|------------|
| Finance income                                                          | 6.2        | 5.0        |
| Interest payable on bonds                                               | (93.5)     | (94.5)     |
| Indexation on index-linked bonds                                        | (36.3)     | (39.1)     |
| Indexation on index-linked loan                                         | (6.1)      | (6.5)      |
| Interest payable on leases (including swaps to RPI)                     | (17.4)     | (17.6)     |
| Other loan interest                                                     | (17.6)     | (19.1)     |
| Other interest payable and finance costs                                | (5.6)      | (5.7)      |
| Net interest charge on pension scheme liabilities                       | (2.2)      | (2.0)      |
| Capitalisation of borrowing costs under IAS 23 (2020: 4.7%; 2019: 5.1%) | 14.4       | 15.9       |
| Financial expenses                                                      | (164.3)    | (168.6)    |
| Net finance cost before fair value adjustments                          | (158.1)    | (163.6)    |

## B) FAIR VALUE LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

| Group                                                 | 2020<br>£m | 2019<br>£m |
|-------------------------------------------------------|------------|------------|
| Fair value losses on interest rate swaps              | (21.6)     | (1.3)      |
| Fair value losses on index-linked swaps               | (20.9)     | (27.4)     |
| Fair value losses on trading derivatives              | (5.8)      | (0.5)      |
| Fair value losses on derivative financial instruments | (48.3)     | (29.2)     |

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                                          | 2020<br>£m | 2019<br>£m  |
|------------------------------------------------|------------|-------------|
| <b>Current tax</b>                             |            |             |
| Current tax on loss for the year               | 0.8        | 0.3         |
| Current tax on research and development credit | (0.2)      | (0.1)       |
| Adjustment in respect of prior years           | 1.4        | (0.4)       |
| Total current tax                              | 2.0        | (0.2)       |
| <b>Deferred tax</b>                            |            |             |
| Origination and reversal of timing differences | 29.9       | 20.4        |
| Adjustment in respect of prior year            | (1.6)      | 0.6         |
| Effect of tax rate change                      | (23.2)     | -           |
| Total deferred tax (note 6)                    | 5.1        | 21.0        |
| <b>Taxation</b>                                | <b>7.1</b> | <b>20.8</b> |

**5. TAXATION continued**

The current tax credit of £0.8m (2019: £0.3m) has arisen from the surrender of tax losses relating to energy efficient capital expenditure.

Operating expenditure includes a tax credit of £1.3m (2019: £0.5m) relating to research and development expenditure. The tax credit is taxable and the corresponding charge of £0.2m (2019: £0.1m) is shown above.

Current taxes in respect of prior years relate to tax credits for energy efficient capital expenditure and the remediation of contaminated land. A deferred tax charge in respect of prior years has arisen from claiming these tax credits and from adjustments to deferred tax balances in respect of capital expenditure.

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Group's future current tax charge accordingly. Deferred tax at 31 March 2020 has been calculated at 19% (2019: 17%).

The effective rate of tax for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

| <b>Group</b>                                                                              | <b>2020<br/>£m</b> | <b>2019<br/>£m</b> |
|-------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Loss before tax</b>                                                                    | <b>(175.9)</b>     | <b>(123.9)</b>     |
| Loss before tax multiplied by the corporation tax rate in the UK of 19% (2019: 19%)       | <b>33.4</b>        | <b>23.5</b>        |
| Effect of:                                                                                |                    |                    |
| Adjustments in respect of prior years                                                     | <b>(0.1)</b>       | <b>0.2</b>         |
| Other permanent differences                                                               | <b>(0.9)</b>       | <b>(1.4)</b>       |
| Effect of pension payments in excess of service charge                                    | <b>1.6</b>         | <b>0.8</b>         |
| Effect of changing rate for deferred tax from 17% to 19%                                  | <b>(23.2)</b>      | <b>-</b>           |
| Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%) | <b>(3.7)</b>       | <b>(2.3)</b>       |
| <b>Taxation</b>                                                                           | <b>7.1</b>         | <b>20.8</b>        |

## NOTES TO THE FINANCIAL STATEMENTS

## 6. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2019: 17%).

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

| Group                                           | 2020<br>£m | 2019<br>£m |
|-------------------------------------------------|------------|------------|
| At 1 April                                      | 440.1      | 441.2      |
| Credit to Income Statement                      | (5.1)      | (21.0)     |
| Credit to the Statement of Comprehensive Income | (0.2)      | (2.6)      |
| Charge to revaluation reserve                   | 52.1       | 22.5       |
| At 31 March                                     | 486.9      | 440.1      |

Analysis of amounts charged to the Statement of Comprehensive Income and revaluation reserve:

| Group                                                                                   | 2020<br>£m   | 2019<br>£m   |
|-----------------------------------------------------------------------------------------|--------------|--------------|
| Defined benefit pension schemes                                                         | (0.1)        | (3.4)        |
| Reallocation of tax from income statement – pension payment in excess of service charge | 1.6          | 0.8          |
| Increase in corporation tax rate – pension scheme                                       | (1.7)        | -            |
| <b>Credited to the Statement of Comprehensive Income</b>                                | <b>(0.2)</b> | <b>(2.6)</b> |
| Revaluation of fixed assets                                                             | 22.4         | 22.5         |
| Increase in corporation tax rate – revaluation of fixed assets                          | 29.7         | -            |
| <b>Charged to the revaluation reserve</b>                                               | <b>52.1</b>  | <b>22.5</b>  |

| Group                                                      | 2020<br>£m   | 2019<br>£m   |
|------------------------------------------------------------|--------------|--------------|
| Effect of:                                                 |              |              |
| Tax allowances in excess of depreciation                   | 303.0        | 277.4        |
| Deferred tax on revaluation of fixed assets                | 282.0        | 243.7        |
| Capital gains rolled over                                  | 3.0          | 2.7          |
| Deferred tax on tax losses carried forward                 | (2.2)        | (2.0)        |
| Deferred tax on losses on derivative financial instruments | (80.4)       | (64.8)       |
| Pensions                                                   | (15.7)       | (15.5)       |
| Other tax differences                                      | (2.8)        | (1.4)        |
| <b>Deferred tax</b>                                        | <b>486.9</b> | <b>440.1</b> |

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future years.

The Company has no deferred tax balance (2019: nil).

## 7. REVALUATION RESERVE

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

As at 31 March 2020 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 2020 RCV published by Ofwat in its PR14 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.

|                                        | 2020<br>£m | 2019<br>£m |
|----------------------------------------|------------|------------|
| <b>Revaluation reserve movement</b>    |            |            |
| Revaluation reserve as at 1 April      | 1,189.5    | 1,142.8    |
| Revaluation of assets to RCV           | 132.0      | 132.2      |
| Depreciation charge on revalued assets | (81.1)     | (75.9)     |
|                                        | 50.9       | 56.3       |
| Deferred tax on revaluation            | (52.1)     | (22.5)     |
| Deferred tax on depreciation charge    | 15.4       | 12.9       |
|                                        | (36.7)     | (9.6)      |
| Revaluation reserve as at 31 March     | 1,203.7    | 1,189.5    |

The movement in the parent Company's revaluation reserve relates solely to the increase in the value of the Company's investment in subsidiaries during the year, by £41.7m, from £3,833.4m to £3,875.1m (2019: increase of £435.4m, from £3,398.0m to £3,833.4m). This is reflected in the Statement of changes in reserves.

## 8. PROPERTY, PLANT AND EQUIPMENT

| Group – 2020                                  | Freehold<br>land and<br>buildings<br>£m | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Plant,<br>equipment,<br>computer<br>hardware<br>£m | Total<br>£m    |
|-----------------------------------------------|-----------------------------------------|--------------------------------|---------------------------------|----------------------------------------------------|----------------|
| <b>Cost or valuation</b>                      |                                         |                                |                                 |                                                    |                |
| At 1 April 2019                               | 41.7                                    | 2,491.0                        | 4,340.5                         | 272.2                                              | 7,145.4        |
| Additions net of grants and contributions     | 1.4                                     | 141.4                          | 238.1                           | 7.2                                                | 388.1          |
| Disposal                                      | -                                       | -                              | -                               | (2.6)                                              | (2.6)          |
| <b>At 31 March 2020</b>                       | <b>43.1</b>                             | <b>2,632.4</b>                 | <b>4,578.6</b>                  | <b>276.8</b>                                       | <b>7,530.9</b> |
| <b>Accumulated depreciation</b>               |                                         |                                |                                 |                                                    |                |
| At 1 April 2019                               | 22.1                                    | -                              | 1,317.8                         | 268.8                                              | 1,608.7        |
| Revaluation                                   | -                                       | (59.0)                         | (73.0)                          | -                                                  | (132.0)        |
| Charge for the year                           | 0.9                                     | 60.9                           | 228.0                           | 4.5                                                | 294.3          |
| Released on disposal                          | -                                       | -                              | -                               | (2.4)                                              | (2.4)          |
| <b>At 31 March 2020</b>                       | <b>23.0</b>                             | <b>1.9</b>                     | <b>1,472.8</b>                  | <b>270.9</b>                                       | <b>1,768.6</b> |
| <b>Net book value</b>                         |                                         |                                |                                 |                                                    |                |
| <b>At 31 March 2020</b>                       | <b>20.1</b>                             | <b>2,630.5</b>                 | <b>3,105.8</b>                  | <b>5.9</b>                                         | <b>5,762.3</b> |
| <b>At 31 March 2020 (historic cost basis)</b> | <b>20.1</b>                             | <b>1,910.6</b>                 | <b>2,341.5</b>                  | <b>5.9</b>                                         | <b>4,278.1</b> |

## NOTES TO THE FINANCIAL STATEMENTS

**8. PROPERTY, PLANT AND EQUIPMENT** continued

The net book value of property, plant and equipment includes £263.6m in respect of assets in the course of construction (2019: £285.8m).

The net book value of property, plant and equipment includes £77.9m of borrowing costs capitalised in accordance with IAS 23 (2019: £67.4m) of which £12.6m were additions in the year (2019: £13.9m).

| Group – 2019                              | Freehold<br>land and<br>buildings<br>£m | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Plant,<br>equipment,<br>computer<br>hardware<br>£m | Total<br>£m |
|-------------------------------------------|-----------------------------------------|--------------------------------|---------------------------------|----------------------------------------------------|-------------|
| <b>Cost or valuation</b>                  |                                         |                                |                                 |                                                    |             |
| At 1 April 2018                           | 41.7                                    | 2,362.3                        | 4,105.5                         | 263.2                                              | 6,772.7     |
| Revaluation                               | -                                       | 4.1                            | -                               | -                                                  | 4.1         |
| Additions net of grants and contributions | -                                       | 124.6                          | 238.6                           | 9.0                                                | 372.2       |
| Disposal                                  | -                                       | -                              | (3.6)                           | -                                                  | (3.6)       |
| At 31 March 2019                          | 41.7                                    | 2,491.0                        | 4,340.5                         | 272.2                                              | 7,145.4     |
| <b>Accumulated depreciation</b>           |                                         |                                |                                 |                                                    |             |
| At 1 April 2018                           | 21.3                                    | -                              | 1,177.7                         | 261.6                                              | 1,460.6     |
| Revaluation                               | -                                       | (54.0)                         | (74.1)                          | -                                                  | (128.1)     |
| Charge for the year                       | 0.8                                     | 54.0                           | 217.1                           | 7.2                                                | 279.1       |
| Released on disposal                      | -                                       | -                              | (2.9)                           | -                                                  | (2.9)       |
| At 31 March 2019                          | 22.1                                    | -                              | 1,317.8                         | 268.8                                              | 1,608.7     |
| <b>Net book value</b>                     |                                         |                                |                                 |                                                    |             |
| At 31 March 2019                          | 19.6                                    | 2,491.0                        | 3,022.7                         | 3.4                                                | 5,536.7     |
| At 31 March 2019 (historic cost basis)    | 19.6                                    | 1,815.3                        | 2,265.2                         | 3.4                                                | 4,103.5     |

**RIGHT-OF-USE ASSETS**

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

| Group – 2020             | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Total<br>£m  |
|--------------------------|--------------------------------|---------------------------------|--------------|
| At 31 March 2020         |                                |                                 |              |
| Valuation                | 654.4                          | 117.7                           | 772.1        |
| Accumulated depreciation | -                              | (84.1)                          | (84.1)       |
| <b>Net book value</b>    | <b>654.4</b>                   | <b>33.6</b>                     | <b>688.0</b> |

**ASSETS HELD UNDER FINANCE LEASES (USED IAS 17)**

Included within the above are assets held under finance leases under IAS 17 as analysed below:

| Group – 2019             | Infrastructure<br>assets<br>£m | Operational<br>structures<br>£m | Total<br>£m  |
|--------------------------|--------------------------------|---------------------------------|--------------|
| At 31 March 2019         |                                |                                 |              |
| Valuation                | 662.9                          | 117.7                           | 780.6        |
| Accumulated depreciation | -                              | (81.7)                          | (81.7)       |
| <b>Net book value</b>    | <b>662.9</b>                   | <b>36.0</b>                     | <b>698.9</b> |

The parent Company owns no property, plant or equipment.

## 9. INTANGIBLE ASSETS

| Group – 2020                    | Cost<br>£m   | Amortisation<br>£m | Net book<br>value<br>£m |
|---------------------------------|--------------|--------------------|-------------------------|
| At 1 April 2019                 | 371.8        | (196.7)            | 175.1                   |
| Additions/(charge for the year) | 46.1         | (29.0)             | 17.1                    |
| <b>At 31 March 2020</b>         | <b>417.9</b> | <b>(225.7)</b>     | <b>192.2</b>            |

Intangible assets principally comprise computer software and related system developments.

| Group – 2019                    | Cost<br>£m   | Amortisation<br>£m | Net book<br>value<br>£m |
|---------------------------------|--------------|--------------------|-------------------------|
| At 1 April 2018                 | 323.3        | (177.0)            | 146.3                   |
| Additions/(charge for the year) | 48.5         | (19.7)             | 28.8                    |
| <b>At 31 March 2019</b>         | <b>371.8</b> | <b>(196.7)</b>     | <b>175.1</b>            |

The net book value of intangible assets includes £34.7m in respect of assets in the course of construction (2019: £24.3m). The net book value of intangible assets includes £8.2m of borrowing costs capitalised in accordance with IAS 23 (2019: £7.1m), of which £1.8m were additions in the year (2019: £2.0m).

The parent Company owns no intangible assets.

## 10. INVESTMENTS

### GROUP

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

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

### PARENT COMPANY

The parent Company has a £10 investment in Glas Cymru Anghyfyngedig (100% holding) and a £100,000 investment in Welsh Water Holdings Limited (100%). It also has indirect investments in the following subsidiary undertakings:

|                                              | Principal activities                                                           | Tax residency | Country of incorporation | Holding |
|----------------------------------------------|--------------------------------------------------------------------------------|---------------|--------------------------|---------|
| Glas Cymru (Securities) Cyfyngedig           | Holding company                                                                | UK resident   | England and Wales        | 100%    |
| Glas Cymru Anghyfyngedig                     | Holding company                                                                | UK resident   | England and Wales        | 100%    |
| Dŵr Cymru (Holdings) Limited                 | Holding company                                                                | UK resident   | England and Wales        | 100%    |
| Dŵr Cymru Cyfyngedig                         | Water and sewerage                                                             | UK resident   | England and Wales        | 100%    |
| Dŵr Cymru (Financing) Limited*               | Raising finance                                                                | UK resident   | Cayman Islands           | 100%    |
| Dŵr Cymru (Financing) UK Plc                 | Raising finance                                                                | UK resident   | England and Wales        | 100%    |
| Cambrion Utilities Limited                   | Retail services in the competitive market                                      | UK resident   | England and Wales        | 100%    |
| Welsh Water Infrastructure Limited           | Competitive business activity in the water sector and other associated sectors | UK resident   | England and Wales        | 100%    |
| Welsh Water Organic Energy Limited           | Food waste processing, treatment and recycling                                 | UK resident   | England and Wales        | 100%    |
| Welsh Water Organic Energy (Cardiff) Limited | Operation and maintenance of an anaerobic digestion food waste facility        | UK resident   | England and Wales        | 100%    |
| Welsh Water Organic Waste Limited            | Tankering of liquid waste for disposal                                         | UK resident   | England and Wales        | 100%    |

\* Dŵr Cymru (Financing) Limited entered voluntary liquidation on 9 September 2019.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. INVESTMENTS continued

Dŵr Cymru (Financing) UK Plc was incorporated on 16 April 2019. On 1 August 2019 the trade and assets of Dŵr Cymru (Financing) Limited were transferred into Dŵr Cymru (Financing) UK Plc. Both companies are wholly-owned subsidiaries of the Group and therefore there is no impact on consolidation.

Dŵr Cymru (Financing) Limited was incorporated in 2001 on the formation of Glas Cymru in order to provide long-term funding for the activities of Dŵr Cymru Cyfyngedig. It was registered in the Cayman Islands as well as in the UK, although the company has always been UK-resident for tax purposes. The sole purpose of the transaction was to remove the link to the Cayman Islands, following reports in the media criticising other companies' perceived tax related connections.

Dŵr Cymru (Financing) Limited entered voluntary liquidation on 9 September 2019.

The registered office of all the above companies is Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

The Company has revalued its investments in subsidiary undertakings to fair value; the carrying value is revalued annually and subject to an impairment review.

Further information on the Group's structure is available on page 215 of this Annual Report and Accounts.

|                                   | 2020<br>£m | 2019<br>£m |
|-----------------------------------|------------|------------|
| <b>Investment in subsidiaries</b> |            |            |
| At 1 April                        | 3,833.5    | 3,398.1    |
| Revaluation                       | 41.7       | 435.4      |
| At 31 March                       | 3,875.2    | 3,833.5    |

The parent Company's investments in subsidiary companies are initially recognised at cost and subsequently revalued to fair value using a discounted cash flow method. The fair value of investments comprises mainly the fair value of the regulated water and sewerage company, Dŵr Cymru Cyfyngedig. A present value has been determined using a discount rate based on the regulator's allowed weighted average cost of capital (WACC) and a terminal value being the projected regulatory capital value (RCV).

We have set the discount rate at 2.4%, being the WACC allowed by Ofwat in its Final Determination for the period 2020 to 2025.

The RCV is set by Ofwat every five years and is, in effect, a proxy for the economic value in use of the appointed business for Dŵr Cymru Cyfyngedig. The terminal value is based on a projection of the RCV resulting from the cash flows in our financial forecasts.

The forecasts on which the cash flows and RCV movements are based are drawn from our 2020 Financial Plan, itself based on our PR19 Final Determination plan set by Ofwat.

See also the critical accounting estimates in note 1.

Revaluation amounts are recognised in other comprehensive income.

### 11. TRADE AND OTHER RECEIVABLES

| Group                                    | 2020<br>£m   | 2019<br>£m   |
|------------------------------------------|--------------|--------------|
| <b>Current</b>                           |              |              |
| Trade receivables                        | 558.4        | 560.3        |
| Provision for impairment of receivables  | (81.8)       | (78.7)       |
| Trade receivables – net                  | 476.6        | 481.6        |
| Prepayments and accrued income           | 86.9         | 80.6         |
| Other receivables                        | 13.0         | 11.3         |
|                                          | 576.5        | 573.5        |
| <b>Non-current</b>                       |              |              |
| Other receivables                        | 0.8          | 0.9          |
| <b>Total trade and other receivables</b> | <b>577.3</b> | <b>574.4</b> |

As at 31 March 2020, based on a review of historical collection rates, it was considered that £81.8m (2019: £78.7m) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

**11. TRADE AND OTHER RECEIVABLES** continued

|                                 | Total<br>£m  | Provided for<br>£m | Net<br>£m    |
|---------------------------------|--------------|--------------------|--------------|
| <b>2020 Trade receivables</b>   |              |                    |              |
| Billed in advance               | 364.6        | -                  | 364.6        |
| Under one month                 | 29.0         | (2.9)              | 26.1         |
| Between one and six months      | 38.5         | (3.7)              | 34.8         |
| Between six months and one year | 31.4         | (3.4)              | 28.0         |
| Between one and two years       | 41.4         | (28.9)             | 12.5         |
| Between two and three years     | 27.0         | (21.3)             | 5.7          |
| Over three years                | 26.5         | (21.6)             | 4.9          |
|                                 | <b>558.4</b> | <b>(81.8)</b>      | <b>476.6</b> |
| <b>2019 Trade receivables</b>   |              |                    |              |
| Billed in advance               | 367.7        | -                  | 367.7        |
| Under one month                 | 27.2         | (2.3)              | 24.9         |
| Between one and six months      | 36.8         | (2.7)              | 34.1         |
| Between six months and one year | 28.8         | (2.6)              | 26.2         |
| Between one and two years       | 44.0         | (30.5)             | 13.5         |
| Between two and three years     | 32.5         | (23.3)             | 9.2          |
| Over three years                | 23.3         | (17.3)             | 6.0          |
|                                 | <b>560.3</b> | <b>(78.7)</b>      | <b>481.6</b> |

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

|                                                          | 2020<br>£m | 2019<br>£m |
|----------------------------------------------------------|------------|------------|
| At 1 April                                               | 78.7       | 83.8       |
| Charge to Income Statement                               | 24.4       | 19.9       |
| Receivables written off during the year as uncollectable | (21.3)     | (25.0)     |
| At 31 March                                              | 81.8       | 78.7       |

During the year, the Group has written off £21.3m of debt which had been provided for in full (2019: £25.0m).

The total charge to the income statement of £25.2m (2019: £21.0m) includes the bad debt element of collection charges under arrangements with third parties who collect debt on the Group's behalf (2020: £0.8m, 2019: £1.1m).

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

## 11. TRADE AND OTHER RECEIVABLES continued

The tables below illustrate the impact of applying the "expected loss" model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors, including the impact of charging orders which improve the underlying collectability of debt and, as at 31 March 2020, the estimated adverse effect on collections of the COVID-19 pandemic. The Group holds around 7,000 charging orders as collateral against £12m of debt (2019: 6,000 orders against £11m of debt).

|                                 | Historical<br>default rates<br>% | Forward-<br>looking<br>adjustment<br>% | Adjustment<br>total<br>% | Historical<br>impairment<br>£m | Forward-<br>looking<br>adjustment<br>£m | Total<br>impairment<br>£m |
|---------------------------------|----------------------------------|----------------------------------------|--------------------------|--------------------------------|-----------------------------------------|---------------------------|
| <b>2020</b>                     |                                  |                                        |                          |                                |                                         |                           |
| Billed in advance               | -                                | -                                      | -                        | -                              | -                                       | -                         |
| Under one month                 | 9.2%                             | 0.8%                                   | 10.0%                    | 2.6                            | 0.2                                     | 2.8                       |
| Between one and six months      | 8.6%                             | 0.9%                                   | 9.5%                     | 3.3                            | 0.4                                     | 3.7                       |
| Between six months and one year | 10.1%                            | 0.7%                                   | 10.8%                    | 3.2                            | 0.2                                     | 3.4                       |
| Between one and two years       | 76.4%                            | (6.6%)                                 | 69.8%                    | 31.6                           | (2.7)                                   | 28.9                      |
| Between two and three years     | 86.9%                            | (7.9%)                                 | 79.0%                    | 23.5                           | (2.1)                                   | 21.4                      |
| Over three years                | 77.7%                            | 3.9%                                   | 81.6%                    | 20.6                           | 1.0                                     | 21.6                      |
|                                 |                                  |                                        |                          | 84.8                           | (3.0)                                   | 81.8                      |
| <b>2019</b>                     |                                  |                                        |                          |                                |                                         |                           |
| Billed in advance               | -                                | -                                      | -                        | -                              | -                                       | -                         |
| Under one month                 | 9.9%                             | (1.5%)                                 | 8.4%                     | 2.7                            | (0.4)                                   | 2.3                       |
| Between one and six months      | 8.8%                             | (1.5%)                                 | 7.3%                     | 3.2                            | (0.5)                                   | 2.7                       |
| Between six months and one year | 10.9%                            | (1.9%)                                 | 9.0%                     | 3.1                            | (0.5)                                   | 2.6                       |
| Between one and two years       | 77.2%                            | (8.2%)                                 | 69.0%                    | 34.0                           | (3.5)                                   | 30.5                      |
| Between two and three years     | 77.8%                            | (6.1%)                                 | 71.7%                    | 25.3                           | (2.0)                                   | 23.3                      |
| Over three years                | 80.9%                            | (6.6%)                                 | 74.3%                    | 18.8                           | (1.5)                                   | 17.3                      |
|                                 |                                  |                                        |                          | 87.1                           | (8.4)                                   | 78.7                      |

The Group's trade receivables provisioning methodology incorporates an "expected loss" model which also determines an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 31 March 2020 is £5.4m, being a revenue provision of 7% against a gross accrual of £76.9m (2019: £3.8m and 5%). The level of provision has risen since the prior year owing to the estimated impact on collections of the COVID-19 pandemic.

The parent Company's loan to Group undertakings of £21.6m (2019: £21.6m) 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<br>2020<br>£m | Group<br>2019<br>£m | Company<br>2020<br>£m | Company<br>2019<br>£m |
|--------------------------|---------------------|---------------------|-----------------------|-----------------------|
| Cash at bank and in hand | 0.1                 | 155.4               | -                     | -                     |
| Short-term deposits      | 667.3               | 345.7               | 8.7                   | 8.6                   |
|                          | 667.4               | 501.1               | 8.7                   | 8.6                   |

The effective interest rate on short-term deposits as at 31 March 2020 was 0.7% (2019: 0.8%) and these deposits had an average maturity of 23 days (2019: 21 days). All cash and cash equivalents were held in sterling.

## 13. TRADE AND OTHER PAYABLES

| Group                           | 2020  | 2019  |
|---------------------------------|-------|-------|
| Current                         | £m    | £m    |
| Trade payables                  | 52.4  | 57.3  |
| Capital payables                | 46.3  | 44.6  |
| Social security and other taxes | 5.7   | 5.2   |
| Accruals and deferred income    | 458.3 | 451.1 |
|                                 | 562.7 | 558.2 |
| Group                           | 2020  | 2019  |
| Non-current                     | £m    | £m    |
| Deferred income                 | 314.4 | 264.7 |

## 14. OTHER FINANCIAL LIABILITIES – BORROWINGS

| Group                                               | 2020    | 2019    |
|-----------------------------------------------------|---------|---------|
| Current                                             | £m      | £m      |
| Overdrawn funds                                     | -       | 139.3   |
| Interest accruals                                   | 11.1    | 2.1     |
| Bonds                                               | 325.4   | 0.3     |
| Term loans                                          | 48.7    | 29.2    |
| Lease liabilities (2019: finance lease liabilities) | 27.6    | 24.5    |
|                                                     | 412.8   | 195.4   |
| Group                                               | 2020    | 2019    |
| Non-current                                         | £m      | £m      |
| Interest accruals                                   | 37.4    | 48.9    |
| Bonds                                               | 2,599.0 | 2,395.1 |
| Term loans                                          | 673.2   | 715.8   |
| Lease liabilities (2019: finance lease liabilities) | 396.5   | 410.5   |
|                                                     | 3,706.1 | 3,570.3 |

The parent Company has no borrowings.

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the Group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors.

The obligations of DCC are guaranteed by the Company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

- 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
- 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 £1,042m (2019: £1,026m) benefit from a guarantee from Assured Guaranty (Europe) Plc. Assured Guaranty's credit rating is graded as A2/AA by Moody's and Standard & Poor's respectively and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A3/A-/A from Moody's, Standard & Poor's and Fitch respectively. The underlying rating 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 £1,691m (2019: £1,371m).

On 17 February 2020 £200m of subordinated (junior) 2026 bonds and £300m of 2033 senior bonds were priced at respective fixed rates of 1.625% and 1.375%. Formal issuance and cash drawdown took place on 24 February 2020.

## NOTES TO THE FINANCIAL STATEMENTS

## 15. OTHER FINANCIAL ASSETS AND LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

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

| Fair values         | Assets      | Liabilities    |
|---------------------|-------------|----------------|
| Group – 2020        | £m          | £m             |
| <b>Current</b>      |             |                |
| Index-linked swaps  | 36.1        | (16.9)         |
| Interest rate swaps | -           | (10.0)         |
| Power hedging swaps | 0.1         | (1.4)          |
|                     | 36.2        | (28.3)         |
| <b>Non-current</b>  |             |                |
| Index-linked swaps  | -           | (392.3)        |
| Interest rate swaps | -           | (89.7)         |
| Power hedging swaps | 0.2         | (0.7)          |
|                     | 0.2         | (482.7)        |
| <b>Total</b>        | <b>36.4</b> | <b>(511.0)</b> |
| Fair values         | Assets      | Liabilities    |
| Group – 2019        | £m          | £m             |
| <b>Current</b>      |             |                |
| Index-linked swaps  | 3.5         | (17.7)         |
| Interest rate swaps | -           | (9.2)          |
| Power hedging swaps | 1.1         | (0.8)          |
|                     | 4.6         | (27.7)         |
| <b>Non-current</b>  |             |                |
| Index-linked swaps  | -           | (324.9)        |
| Interest rate swaps | -           | (82.0)         |
| Power hedging swaps | 3.8         | -              |
|                     | 3.8         | (406.9)        |
| <b>Total</b>        | <b>8.4</b>  | <b>(434.6)</b> |

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

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

## INTEREST RATE SWAPS

At 31 March 2020 an interest rate swap fixed the interest rate on £192m (2019: £192m) 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 £380m (2019: £380m) 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 2020 was £394m (2019: £397m), representing the average balance on the leases subject to floating interest rates for the year to 31 March 2020. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

## 15. OTHER FINANCIAL ASSETS AND LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS *continued*

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

|                       |                                                   |
|-----------------------|---------------------------------------------------|
| Notional amount       | £394m amortising (2019: £397m amortising)         |
| Average swap maturity | 16 years (2019: 17 years)                         |
| Average interest rate | 1.43% fixed plus RPI (2019: 1.43% fixed plus RPI) |

### BOND SWAP

The index-linked swaps have the effect of index-linking the interest rate on £950m of fixed rate bonds by reference to the RPI (2019: £100m)

The principal terms are as follows:

|                         |                                                   |
|-------------------------|---------------------------------------------------|
| Indexed notional amount | £1,001m (2019: £144m)                             |
| Swap maturity           | 19 years (2019: 38 years)                         |
| Interest rate           | 0.14% indexed by RPI (2019: 1.35% 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 182. 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:

|                                                     | 2020 | 2019 |
|-----------------------------------------------------|------|------|
| <b>Assets:</b>                                      |      |      |
| Cash and cash equivalents                           | 0.7% | 0.8% |
| <b>Liabilities:</b>                                 |      |      |
| Bonds                                               | 3.6% | 4.1% |
| Term loans                                          | 1.0% | 1.1% |
| Other unsecured loans                               | 3.2% | 4.3% |
| Lease liabilities (2019: finance lease liabilities) | 0.7% | 0.7% |

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

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

### B) LIQUIDITY RISK

| Group – 2020                | Within 1 year<br>£m | 1 – 2 years<br>£m | 2 – 5 years<br>£m | > 5 years<br>£m | Total<br>£m |
|-----------------------------|---------------------|-------------------|-------------------|-----------------|-------------|
| <b>Assets:</b>              |                     |                   |                   |                 |             |
| Cash and cash equivalents   | 667.4               | –                 | –                 | –               | 667.4       |
| Trade and other receivables | 577.3               | –                 | –                 | –               | 577.3       |
|                             | 1,247.7             | –                 | –                 | –               | 1,247.7     |
| <b>Liabilities:</b>         |                     |                   |                   |                 |             |
| Bonds                       | 325.7               | 0.7               | 2.3               | 2,609.1         | 2,937.8     |
| Term loans                  | 48.6                | 53.3              | 191.5             | 428.2           | 721.6       |
| Other unsecured loans       | 0.1                 | –                 | –                 | 0.2             | 0.3         |
| Lease liabilities           | 27.6                | 16.9              | 203.6             | 176.0           | 424.1       |
| Trade and other payables    | 562.7               | 7.2               | 21.6              | 285.6           | 877.1       |
| Future interest payable     | 136.5               | 114.7             | 343.4             | 782.2           | 1,376.8     |
|                             | 1,101.2             | 192.8             | 762.4             | 4,281.3         | 6,337.7     |

## NOTES TO THE FINANCIAL STATEMENTS

## 16. FINANCING RISK MANAGEMENT continued

| Group – 2019                | Within 1 year<br>£m | 1 – 2 years<br>£m | 2 – 5 years<br>£m | > 5 years<br>£m | Total<br>£m |
|-----------------------------|---------------------|-------------------|-------------------|-----------------|-------------|
| <b>Assets:</b>              |                     |                   |                   |                 |             |
| Cash and cash equivalents   | 501.1               | –                 | –                 | –               | 501.1       |
| Trade and other receivables | 574.4               | –                 | –                 | –               | 574.4       |
|                             | 1,075.5             | –                 | –                 | –               | 1,075.5     |
| <b>Liabilities:</b>         |                     |                   |                   |                 |             |
| Cash and cash equivalents   | 139.3               | –                 | –                 | –               | 139.3       |
| Bonds                       | 0.7                 | 325.7             | 2.2               | 2,073.7         | 2,402.3     |
| Term loans                  | 29.1                | 48.4              | 161.4             | 505.7           | 744.6       |
| Other unsecured loans       | 0.1                 | 0.1               | 0.1               | 0.1             | 0.4         |
| Finance lease liabilities   | 24.5                | 15.1              | 18.6              | 376.8           | 435.0       |
| Trade and other payables    | 558.2               | 5.9               | 17.7              | 241.1           | 822.9       |
| Future interest payable     | 119.9               | 119.8             | 285.2             | 735.1           | 1,260.0     |
|                             | 871.8               | 515.0             | 485.2             | 3,932.5         | 5,804.5     |

The minimum lease payments under leases fall due as follows:

|                                                                        | 2020<br>£m | 2019<br>£m |
|------------------------------------------------------------------------|------------|------------|
| <b>Gross lease liabilities</b> (2019: gross finance lease liabilities) |            |            |
| Within one year                                                        | 37.0       | 32.8       |
| Between two and five years                                             | 54.0       | 69.3       |
| After five years                                                       | 421.6      | 429.3      |
|                                                                        | 512.6      | 531.4      |
| Future interest                                                        | (88.5)     | (96.4)     |
| <b>Net lease liabilities</b> (2019: net finance lease liabilities)     | 424.1      | 435.0      |
| Net lease liabilities are repayable as follows:                        |            |            |
| <b>Within one year (note 14)</b>                                       | 27.6       | 24.5       |
| Between two and five years                                             | 220.5      | 33.7       |
| After five years                                                       | 176.0      | 376.8      |
| <b>Total over one year (note 14)</b>                                   | 396.5      | 410.5      |

## C) FAIR VALUES

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

|       | 2020             |                  | 2019             |                  |
|-------|------------------|------------------|------------------|------------------|
|       | Book value<br>£m | Fair value<br>£m | Book value<br>£m | Fair value<br>£m |
| Bonds | 2,937.8          | 3,742.0          | 2,402.3          | 3,242.3          |

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

**16. FINANCING RISK MANAGEMENT** *continued***D) BORROWING FACILITIES**

As at 31 March 2020, the Group had available undrawn committed borrowing facilities of £170m expiring as set out below, in respect of which all conditions precedent had been met (2019: £170m).

|                                 | 2020<br>£m | 2019<br>£m |
|---------------------------------|------------|------------|
| Expiring in less than one year: |            |            |
| - revolving credit facilities   | 170        | -          |
| Expiring in more than one year: |            |            |
| - revolving credit facilities   | -          | 170        |
|                                 | 170        | 170        |

The undrawn facilities comprise £170m revolving credit facilities which are available until November 2020. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2020 there was also a special liquidity facility of £135m (2019: £135m); this is required in order to meet certain interest and other obligations that may not be funded through operating cash flow in the event of a standstill being declared by the security trustee, following an event of default under the Group's debt financing covenants. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. Up until 2 April 2019, the facility was a 364-day bank facility split equally between four providers. From 3 April 2019 the facility has been replaced with a five-year evergreen facility provided by an insurer.

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

**E) CAPITAL RISK MANAGEMENT**

| <b>Gearing ratios</b>                            | 2020<br>£m | 2019<br>£m |
|--------------------------------------------------|------------|------------|
| Total borrowings                                 | (4,119)    | (3,766)    |
| Less: cash and cash equivalents                  | 667        | 501        |
| Net debt                                         | (3,452)    | (3,265)    |
| Regulatory capital value (RCV)                   | 5,906      | 5,671      |
| Total capital                                    | 2,454      | 2,406      |
| Less: unamortised bond costs and swap indexation | (64)       | (52)       |
| Total capital per bond covenants                 | 2,390      | 2,354      |
| Gearing ratio                                    | 60%        | 58%        |

As set out on page 68, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

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

## NOTES TO THE FINANCIAL STATEMENTS

## 17. PROVISIONS

|                                                 | Restructuring<br>provision<br>£m | Uninsured<br>loss provision<br>£m | Other<br>provisions<br>£m | Total<br>£m |
|-------------------------------------------------|----------------------------------|-----------------------------------|---------------------------|-------------|
| <b>Group – 2020</b>                             |                                  |                                   |                           |             |
| At 1 April 2019                                 | 1.6                              | 3.5                               | 1.5                       | 6.6         |
| Charged to Income Statement                     | 10.0                             | 1.8                               | –                         | 11.8        |
| Utilised in year                                | (1.6)                            | (1.5)                             | (1.0)                     | (4.1)       |
| <b>At 31 March 2020</b>                         | <b>10.0</b>                      | <b>3.8</b>                        | <b>0.5</b>                | <b>14.3</b> |
| Split as:                                       |                                  |                                   |                           |             |
| Amounts to be utilised within one year          | 5.0                              | 1.3                               | 0.1                       | 6.4         |
| Amounts to be utilised after more than one year | 5.0                              | 2.5                               | 0.4                       | 7.9         |
| <b>At 31 March 2020</b>                         | <b>10.0</b>                      | <b>3.8</b>                        | <b>0.5</b>                | <b>14.3</b> |
|                                                 |                                  |                                   |                           |             |
|                                                 | Restructuring<br>provision<br>£m | Uninsured<br>loss provision<br>£m | Other<br>provisions<br>£m | Total<br>£m |
| <b>Group – 2019</b>                             |                                  |                                   |                           |             |
| At 1 April 2018                                 | 2.4                              | 4.2                               | 2.3                       | 8.9         |
| Charged to Income Statement                     | –                                | 1.4                               | –                         | 1.4         |
| Unused amounts reversed                         | –                                | –                                 | (0.8)                     | (0.8)       |
| Utilised in year                                | (0.8)                            | (2.1)                             | –                         | (2.9)       |
| <b>At 31 March 2019</b>                         | <b>1.6</b>                       | <b>3.5</b>                        | <b>1.5</b>                | <b>6.6</b>  |
| Split as:                                       |                                  |                                   |                           |             |
| Amounts to be utilised within one year          | 1.6                              | 1.3                               | 1.1                       | 4.0         |
| Amounts to be utilised after more than one year | –                                | 2.2                               | 0.4                       | 2.6         |
| <b>At 31 March 2019</b>                         | <b>1.6</b>                       | <b>3.5</b>                        | <b>1.5</b>                | <b>6.6</b>  |

The parent Company had no provisions at 31 March 2020 (2020: none).

**RESTRUCTURING PROVISION**

This provides for the cost of a reduction in the headcount by some 200 over the period 2020 to 2025 (see details of exceptional item in note 3).

**UNINSURED LOSS PROVISION**

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

**OTHER PROVISIONS**

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

**18. NET CASH INFLOW FROM OPERATING ACTIVITIES****A) CASH GENERATED FROM OPERATIONS**

Reconciliation of operating profit to cash generated from operations:

| <b>Group</b>                             | <b>2020<br/>£m</b> | <b>2019<br/>£m</b> |
|------------------------------------------|--------------------|--------------------|
| Operating profit                         | 30.1               | 68.7               |
| Adjustments for:                         |                    |                    |
| Depreciation and amortisation            | 316.2              | 293.0              |
| Changes in working capital:              |                    |                    |
| Increase in trade and other receivables  | (1.9)              | (2.7)              |
| Increase in inventories                  | –                  | (0.8)              |
| Increase in trade and other payables     | 0.5                | 11.8               |
| Pension contributions above service cost | (11.9)             | (6.7)              |
| Increase/(decrease) in provisions        | 7.7                | (2.3)              |
|                                          | (5.6)              | (0.7)              |
| <b>Cash generated from operations</b>    | <b>340.7</b>       | <b>361.0</b>       |

Pension contributions above service cost represent DCWW Pension Scheme deficit recovery costs paid as agreed between the Company and the scheme's trustees.

**B) INTEREST PAID**

| <b>Group</b>                                  | <b>2020<br/>£m</b> | <b>2019<br/>£m</b> |
|-----------------------------------------------|--------------------|--------------------|
| Interest payable per income statement         | 164.3              | 168.6              |
| Less non-cash items:                          |                    |                    |
| Indexation on index-linked bonds              | (36.3)             | (39.1)             |
| Indexation on index-linked debt               | (6.1)              | (6.5)              |
| Amortisation of bond issue costs              | (0.6)              | (0.5)              |
| Interest charge on pension scheme liabilities | (2.2)              | (2.0)              |
| Amortisation of bond issue premium            | 0.7                | 0.7                |
| Effect of capitalisation under IAS 23         | 14.4               | 15.9               |
| Decrease/(increase) in accruals               | 2.5                | (4.4)              |
|                                               | (27.6)             | (35.9)             |
| <b>Interest paid</b>                          | <b>136.7</b>       | <b>132.7</b>       |

## NOTES TO THE FINANCIAL STATEMENTS

## 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    |            |
|-----------------------------------------------------|------------|------------|------------|------------|
|                                                     | 2020<br>£m | 2019<br>£m | 2020<br>£m | 2019<br>£m |
| Cash and cash equivalents                           | 667.4      | 501.1      | 8.7        | 8.6        |
| Debt due after one year                             | (3,272.2)  | (3,110.9)  | -          | -          |
| Debt due within one year                            | (374.1)    | (168.8)    | -          | -          |
| Lease liabilities (2019: finance lease liabilities) | (424.1)    | (435.0)    | -          | -          |
| Accrued interest                                    | (48.5)     | (51.0)     | 2.3        | 1.3        |
|                                                     | (4,118.9)  | (3,765.7)  | 2.3        | 1.3        |
| Net (debt)/funds                                    | (3,451.5)  | (3,264.6)  | 11.0       | 9.9        |

## B) THE MOVEMENT IN NET (DEBT)/FUNDS DURING THE YEAR MAY BE SUMMARISED AS:

|                                                             | Group          |                | Company    |            |
|-------------------------------------------------------------|----------------|----------------|------------|------------|
|                                                             | 2020<br>£m     | 2019<br>£m     | 2020<br>£m | 2019<br>£m |
| Net (debt)/funds at start of year                           | (3,264.6)      | (3,070.3)      | 9.9        | 8.8        |
| Movement in net cash                                        | 166.3          | 212.6          | 0.1        | -          |
| Movement in debt arising from cash flows                    | (312.2)        | (361.5)        | -          | -          |
| <b>Movement in net (debt)/funds arising from cash flows</b> | <b>(145.9)</b> | <b>(148.9)</b> | <b>0.1</b> | <b>-</b>   |
| Movement in accrued interest                                | 2.5            | 0.2            | 1.0        | 1.1        |
| Indexation of index-linked debt                             | (42.4)         | (45.6)         | -          | -          |
| Other non-cash movements                                    | (1.1)          | -              | -          | -          |
| Movement in net (debt)/funds during the year                | (186.9)        | (194.3)        | 1.1        | 1.1        |
| Net (debt)/funds at end of year                             | (3,451.5)      | (3,264.6)      | 11.0       | 9.9        |

Non-cash movements relate to the recognition of lease liabilities under IFRS 16.

## 20. EMPLOYEES AND DIRECTORS

### STAFF COSTS FOR THE GROUP DURING THE YEAR

|                       | 2020<br>£m | 2019<br>£m |
|-----------------------|------------|------------|
| Wages and salaries    | 138.5      | 133.4      |
| Social security costs | 14.1       | 13.5       |
| Other pension costs   | 13.2       | 12.7       |
|                       | 165.8      | 159.6      |

Of the above, £69.6m (2019: £60.3m) has been capitalised, being the investment cost of employees' work on the capital programme.

|                                                                                | 2020<br>Number | 2019<br>Number |
|--------------------------------------------------------------------------------|----------------|----------------|
| Average number of people employed by the Group (including Executive Directors) | 3,525          | 3,447          |

For further information see the Remuneration Report on page 130.

No remuneration was paid or is payable by the parent Company. The Directors are employed by other companies in the Group and consider their duties to this Company incidental to their other activities within the Group. The parent Company had no employees during the year other than the Directors.

## 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 and closed for future accruals from 1 April 2017. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

### EFRBS

During 2011, the Company put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2020, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

### DEFINED BENEFIT SCHEME

A full actuarial valuation of the scheme was undertaken as at 31 March 2019 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2020 and the principal assumptions made by the actuary were:

|                                                           | 2020       | 2019       |
|-----------------------------------------------------------|------------|------------|
| Discount rate                                             | 2.4%       | 2.6%       |
| Inflation assumption                                      | 2.6%       | 3.2%       |
| Rate of increase in pensionable salaries                  | 2.6%       | 3.2%       |
| Rate of increase in pensions in payment                   | 2.6%       | 3.1%       |
| Post retirement mortality (life expectancy)               |            |            |
| - Current pensioners aged 65 - males                      | 86.7 years | 87.1 years |
| - Current pensioners aged 65 - females                    | 88.9 years | 89.2 years |
| - Future pensioners aged 65 (currently aged 45) - males   | 87.7 years | 88.5 years |
| - Future pensioners aged 65 (currently aged 45) - females | 90.1 years | 90.7 years |

The mortality assumptions are the S2PxA base tables with future improvements in line with the CM1 2016 projection model with a long-term trend rate of 1% p.a.

## NOTES TO THE FINANCIAL STATEMENTS

**21. PENSION COMMITMENTS** continued

Changes in the defined benefit obligation are as follows:

|                                                                  | 2020<br>£m | 2019<br>£m |
|------------------------------------------------------------------|------------|------------|
| At 1 April                                                       | 488.4      | 474.1      |
| Current service cost                                             | 0.3        | 0.4        |
| Interest expense                                                 | 12.4       | 13.0       |
| Remeasurement: (gain)/ loss from change in financial assumptions | (12.6)     | 24.9       |
| Benefits paid                                                    | (18.2)     | (24.0)     |
| At 31 March                                                      | 470.3      | 488.4      |

Changes in the fair value plan assets are as follows:

|                           | 2020<br>£m | 2019<br>£m |
|---------------------------|------------|------------|
| At 1 April                | 396.9      | 398.0      |
| Interest income           | 10.2       | 10.9       |
| Experience (losses)/gains | (13.5)     | 5.0        |
| Contributions             | 12.2       | 7.0        |
| Benefits paid             | (18.2)     | (24.0)     |
| At 31 March               | 387.6      | 396.9      |

|                      | 2020<br>£m | 2019<br>£m |
|----------------------|------------|------------|
| <b>Scheme assets</b> |            |            |
| Cash                 | 24.9       | 2.6        |
| Equity               | 201.5      | 303.1      |
| Absolute return      | 80.3       | 20.2       |
| Property             | 14.5       | 29.1       |
| Private Equity       | 66.4       | 41.9       |
| Total assets         | 387.6      | 396.9      |

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 £147m are Level 3 financial assets (2019: £149m); 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.

**21. PENSION COMMITMENTS** continued

|                                                               | 2020<br>£m | 2019<br>£m |
|---------------------------------------------------------------|------------|------------|
| Present value of funded obligations                           | (470.3)    | (488.4)    |
| Fair value of plan assets                                     | 387.6      | 396.9      |
|                                                               | (82.7)     | (91.5)     |
| EFRBS unfunded liability                                      | (4.7)      | (4.7)      |
| Net defined benefit liability recognised in the balance sheet | (87.4)     | (96.2)     |

The contributions paid in the year to 31 March 2020 include special contributions of £11.9m (2019: £6.7m).

|                 | Change in<br>assumption | Movement in<br>liabilities |
|-----------------|-------------------------|----------------------------|
| Discount rate   | 0.10%                   | £8.7m                      |
| Price inflation | 0.10%                   | £8.1m                      |
| Life expectancy | 1 year                  | £13.3m                     |

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.

**22. CAPITAL AND OTHER FINANCIAL COMMITMENTS**

The Group's business plan at 31 March 2020 shows net capital expenditure and infrastructure renewals expenditure of £366m (2019: £466m) 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.

**23. RELATED PARTY TRANSACTIONS**

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

The parent Company issued an intercompany loan to Welsh Water Holdings Limited, a wholly owned subsidiary, during the year ended 31 March 2018. As at 31 March 2020, the balance on this loan stood at £21,553,698 (2019: £21,553,702). Interest is chargeable at a fixed rate of 5% and £1,080,637 was charged during the year (2019: £1,077,685). As at 31 March 2020 accrued interest receivable relating to this totalled £2,444,516 (2019: £1,363,879).

---

## NOTES TO THE FINANCIAL STATEMENTS

### 24. 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.

---

### 25. 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 £31.7m, 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 2020 the market value of the trust fund was £119m (2019: £117m).

Interest receivable includes £3.1m (2019: £2.6m) in respect of distributions from the Elan Valley Trust Fund.

---

### 26. CONTINGENT LIABILITIES

Claims under the Environmental Information Regulations 2001 (EIR): since 2016, the Company has received notice of intended claims from three groups comprising individuals and entities operating personal search businesses. The claims are for the repayment of charges received for drainage and water searches carried out since 2004, on the basis that they were levied contrary to the EIR. In April 2020, one of the groups served court claims on the Company, seeking the repayment of charges and injunctive relief. The Company is defending those claims and has not heard from the other two groups of potential claimants since 2016 and 2018 respectively. Collective indicative quantum notified to date is £5.4m with £2.8m of that being the subject of live court proceedings.

There were no other contingent liabilities aside from those arising in ordinary course of the Group's business and in respect of these no material losses are anticipated.

---

### 27. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales, company number 09917809, registered office Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY. The largest and smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig.



# APPENDICES

THE PAGES WHICH FOLLOW DEFINE  
TERMS USED THROUGHOUT THIS  
ANNUAL REPORT AND ACCOUNTS  
AND EXPLAIN THE MEASURES OF  
SUCCESS AGAINST WHICH WE TRACK  
OUR PERFORMANCE

---

|                                  |     |
|----------------------------------|-----|
| Glossary                         | 210 |
| Measures of Success: Definitions | 213 |
| Our Corporate Structure          | 215 |

## GLOSSARY

|                                     |                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AMP6</b>                         | AMP6 ran from 2015–2020. AMP7 will run from 2020–2025.                                                                                                                                                                                                                                                                                             |
| <b>Anaerobic digestion</b>          | A process by which organic material is broken down by bacteria and other <i>micro-organisms to generate renewable energy.</i>                                                                                                                                                                                                                      |
| <b>Assets</b>                       | These include infrastructure such as water mains and sewers, dams and reservoirs, water and sewage treatment works, pumping stations, company laboratories, depots and workshops.                                                                                                                                                                  |
| <b>AVPS</b>                         | Annual Variable Pay Scheme – a performance-related element of emoluments.                                                                                                                                                                                                                                                                          |
| <b>Bacteriological failures</b>     | 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.                                                                            |
| <b>Catchment</b>                    | An area of land through which water drains into a body of water (such as a river or reservoir).                                                                                                                                                                                                                                                    |
| <b>Combined sewer</b>               | Combined sewer for sewage and rain water runoff.                                                                                                                                                                                                                                                                                                   |
| <b>CSO</b>                          | 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.                                                                                                                                                                             |
| <b>Company limited by guarantee</b> | A private company that does not have shareholders or share capital.                                                                                                                                                                                                                                                                                |
| <b>CPNI</b>                         | Centre for the Protection of National Infrastructure.                                                                                                                                                                                                                                                                                              |
| <b>CCWater</b>                      | Consumer Council for Water.                                                                                                                                                                                                                                                                                                                        |
| <b>C-MeX</b>                        | 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.                                                                                            |
| <b>Credit rating</b>                | Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing.                                                                                                                                                                                                                                    |
| <b>Customer Reserves</b>            | 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%. |
| <b>Discharge permits</b>            | Legal agreements issued by the environmental regulator relating to the amount, quality and frequency of wastewater that can be returned to the environment.                                                                                                                                                                                        |
| <b>D-MeX</b>                        | The customer service measures for developer services (new connections) customers, developed by Ofwat for AMP7. See C-MeX definition above.                                                                                                                                                                                                         |
| <b>DWI</b>                          | Drinking Water Inspectorate.                                                                                                                                                                                                                                                                                                                       |
| <b>Drinking Water Safety Plan</b>   | A proactive method of assessing risk to drinking water quality, which better protects public health.                                                                                                                                                                                                                                               |
| <b>Drought Plan</b>                 | Statutory plan produced by a water company that details the actions to be taken to manage the supply of water in a drought.                                                                                                                                                                                                                        |
| <b>Effluent</b>                     | Water that flows from a sewage treatment plant after it has been treated.                                                                                                                                                                                                                                                                          |
| <b>Environment Agency (EA)</b>      | An executive, non-departmental Government body that has a statutory duty to protect and enhance the environment in England.                                                                                                                                                                                                                        |
| <b>Financeability</b>               | The ability of appointed water companies to finance their functions through debt, equity or retained earnings.                                                                                                                                                                                                                                     |
| <b>Gearing</b>                      | Net debt expressed as a percentage of regulatory capital value.                                                                                                                                                                                                                                                                                    |

|                                                |                                                                                                                                                                                                                                                                                                                                                             |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Glas Cymru</b>                              | 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 reregistered as Glas Cymru Anghyfyngedig and Glas Cymru Holdings Cyfyngedig was created to be the holding company for the Glas Cymru Group. |
| <b>Groundwater</b>                             | Water that can be found in the saturated zone of the soil.                                                                                                                                                                                                                                                                                                  |
| <b>Group</b>                                   | Glas Cymru and all its subsidiaries.                                                                                                                                                                                                                                                                                                                        |
| <b>ICT</b>                                     | Information and communications technology.                                                                                                                                                                                                                                                                                                                  |
| <b>IEAP</b>                                    | 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.                                                                                                                                    |
| <b>Leakage</b>                                 | Water lost between the treatment works and the customer's home or business.                                                                                                                                                                                                                                                                                 |
| <b>Let's Stop the Block</b>                    | Behavioural change campaign being undertaken by Welsh Water which asks customers to help reduce the number of sewer blockages.                                                                                                                                                                                                                              |
| <b>LVPS</b>                                    | Long-term Variable Pay Scheme. A performance-related element of emoluments.                                                                                                                                                                                                                                                                                 |
| <b>'Look-up' Compliance</b>                    | Where a wastewater treatment works fails to meet the consented parameters set by the NRW or EA for less than 95% of the time.                                                                                                                                                                                                                               |
| <b>Mean Zonal Compliance (MZC)</b>             | 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.                                                                                                                                   |
| <b>Megalitres (ML)</b>                         | 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.                                                                                                                                                                                                                 |
| <b>Natural Resources Wales (NRW)</b>           | Welsh Government-sponsored body whose purpose it is to ensure that the natural resources of Wales are sustainably maintained, enhanced and used.                                                                                                                                                                                                            |
| <b>Non-Executive Directors</b>                 | Members of Glas Cymru's Board. Non-Executive Directors are not responsible for the day-to-day running but challenge management and oversee the running of the Group. See page 117 for further details of their role.                                                                                                                                        |
| <b>ODI</b>                                     | 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.                                                                                                                                                                 |
| <b>Ofwat</b>                                   | The economic regulator of the water sector in England and Wales.                                                                                                                                                                                                                                                                                            |
| <b>Operating costs</b>                         | Total operating expenditure of the business, net of any operating income, primarily any profits or losses on the disposal of fixed assets.                                                                                                                                                                                                                  |
| <b>Pollution Incidents</b>                     | An accidental or deliberate release of contaminants such as oils, fuels and chemicals that can be harmful to human health and the environment.                                                                                                                                                                                                              |
| <b>PR19</b>                                    | 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.                                                                                                                                                               |
| <b>PR24</b>                                    | Ofwat's forthcoming Price Review process 2024, which will culminate in a Determination in December 2024, to set prices for AMP8 (2025–2030).                                                                                                                                                                                                                |
| <b>Pumping station</b>                         | Used to pump water or sewerage from one place to another.                                                                                                                                                                                                                                                                                                   |
| <b>Quality and Environment Committee (QEC)</b> | Board-level Committee in Glas Cymru which addresses performance and operational risk issues across the Company.                                                                                                                                                                                                                                             |
| <b>RainScope</b>                               | Glas Cymru's approach to managing surface water and overloaded sewers (sustainable urban drainage systems).                                                                                                                                                                                                                                                 |
| <b>Real terms</b>                              | The change in a financial number after removing the effect of inflation.                                                                                                                                                                                                                                                                                    |
| <b>Regulatory Capital Value (RCV)</b>          | 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.                                                                                                              |

## GLOSSARY

continued

|                                                         |                                                                                                                                                                          |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Reservoir</b>                                        | A natural or artificial lake where water is collected and stored until needed.                                                                                           |
| <b>Return of Value</b>                                  | Payments made for the benefit of our customers from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company. |
| <b>Rising main</b>                                      | A pumped pipeline that carries wastewater.                                                                                                                               |
| <b>Scorecard</b>                                        | A statistical record used by Welsh Water to measure achievement or progress towards a particular goal.                                                                   |
| <b>Security and Emergency Measures Directive (SEMD)</b> | Issued by Welsh Government and DEFRA to the water sector to provide guidance on how to respond to major incidents.                                                       |
| <b>Service Incentive Mechanism (SIM)</b>                | An Ofwat measure designed to improve the level of customer service that water companies provide.                                                                         |
| <b>Service reservoir</b>                                | A tank containing drinking water that is usually sited within or near to a water distribution system.                                                                    |
| <b>Serviceability</b>                                   | 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.                                |
| <b>Sewer</b>                                            | An underground pipe that takes household and non-household wastewater and surface water away from properties for treatment and disposal.                                 |
| <b>Sewer flooding</b>                                   | Occurs when wastewater escapes from sewer pipes through a manhole cover or a drain, or by backing up through toilets.                                                    |
| <b>Safety Takes Every Person (STEP)</b>                 | Behavioural safety training which emphasises that each individual has responsibility for Health and Safety issues.                                                       |
| <b>SSSI</b>                                             | Site of Special Scientific Interest                                                                                                                                      |
| <b>Storm tank</b>                                       | A tank into which, in wet weather, stormwater and wastewater is stored until the wastewater treatment works can treat it.                                                |
| <b>Surface water</b>                                    | Run-off from rainwater that falls onto customers' properties (such as roofs, paths and driveways).                                                                       |
| <b>Surface water drainage</b>                           | 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.           |
| <b>Sustainable Urban Drainage (SUDS)</b>                | A sustainable drainage system is designed to reduce the potential impact of new and existing developments with respect to surface water drainage discharges.             |
| <b>Totex</b>                                            | An Ofwat abbreviation for total expenditure. The total sum of capital expenditure and operational expenditure.                                                           |
| <b>Trunk main</b>                                       | 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.                     |
| <b>UKRI</b>                                             | UK Research and Innovation, a research funding body working combining 7 former Research Councils.                                                                        |
| <b>UKWIR</b>                                            | UK Water Industry Research, a body set up by the water industry to support research and shape the industry's research agenda.                                            |
| <b>Wastewater</b>                                       | Waste matter from household or non-household properties that is carried away from properties in sewers or drains.                                                        |
| <b>Wastewater treatment works (WWTW)</b>                | Wastewater treatment works are designed to remove biological or chemical waste products from water before it is returned to water sources.                               |
| <b>Water main</b>                                       | A large pipe that carries treated water to households.                                                                                                                   |
| <b>Water Resource Management Plan (WRMP)</b>            | This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years.                                          |
| <b>Water treatment works (WTW)</b>                      | Water treatment plants produce drinking water for public consumption or industrial water for manufacturing or other business operations.                                 |
| <b>Zonal Studies</b>                                    | Water network improvement programmes to reduce interruptions and increase customer acceptability of water.                                                               |

## MEASURES OF SUCCESS: DEFINITIONS

|            |                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>A1a</b> | <b>Safety in Drinking Water<br/>(% compliance)</b>          | <p>Provide safe drinking water that meets the Drinking Water Inspectorate's standards.</p> <p>The percentage of the sample tests that are compliant with the standards. We take over 250,000 sample tests per year at our water treatment works, service reservoirs and at customer taps.</p>                                                                                                                                                                                                                                                                                                   |
| <b>A1b</b> | <b>Safety in Drinking Water<br/>(Mean Zonal Compliance)</b> | <p>Mean Zonal Compliance is published annually in the Drinking Water Inspectorate (DWI) report. The MZC covers 39 different parameters such as iron, lead and aluminium, which are tested to establish the quality of water as received by customers. MZC is calculated as the average of the compliance levels for each parameter in each of our 87 water quality zones, which range in size from 27 population to almost 100,000 population. (The maximum allowable population in any one water quality zone is 100,000 allowable within the DWI regulations).</p>                            |
| <b>A2</b>  | <b>Customer acceptability</b>                               | <p>The number of contacts received from customers in the year regarding the appearance, taste or odour of drinking water, expressed as a rate per 1,000 customers.</p>                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>A3</b>  | <b>Reliability of Supply<br/>(customer minutes lost)</b>    | <p>The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>B1</b>  | <b>Abstraction for water for use</b>                        | <p>The percentage compliance with our abstraction licences, as issued by Regulators.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>B2</b>  | <b>Treating wastewater</b>                                  | <p>For each of our 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 the NRW. The measure is the percentage compliance against the discharge permits.</p>                                                                                                                                                                                                                                                                                                        |
| <b>B3a</b> | <b>Preventing pollutions<br/>(category 1, 2 &amp; 3)</b>    | <p>The measure is the number of incidents and the target is to reduce the number of pollution incidents (caused by blockages or collapsed sewers).</p> <p>Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency.</p> <p>Category 1 – the most severe and has a major or serious impact on the environment, people or property.</p> <p>Category 2 – significant impact or effect on the environment, people or property.</p> <p>Category 3 – minor or minimal impact on the environment, people or property.</p> |
| <b>B3b</b> | <b>Preventing pollutions<br/>(category 3 only)</b>          | <p>As above but only category 3 pollution incidents (minor or minimal impact on the environment, people or property).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>C1</b>  | <b>Responding to climate change</b>                         | <p>Reduce the amount of rainwater entering our sewers.</p> <p>The measure is the volume of surface water removed from the system, expressed as the number of equivalent properties.</p>                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>C2</b>  | <b>Carbon footprint</b>                                     | <p>To generate more renewable energy and therefore to offset our carbon emissions and the cost of imported energy (GWh hours per year).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>D1</b>  | <b>SIM</b>                                                  | <p>Service incentive mechanism (SIM) is a measure introduced by the Regulator Ofwat to monitor and report customer service information across all water and wastewater companies as a comparative measure. For AMP7, Ofwat has replaced SIM with C-MeX.</p>                                                                                                                                                                                                                                                                                                                                     |

## MEASURES OF SUCCESS: DEFINITIONS

continued

|            |                                             |                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>D2</b>  | <b>At Risk Customer Service</b>             | The number of customers who are on our register of "at risk". They are deemed to be "at risk" because their service has repeatedly fallen short in one of the following five areas: discolouration of water, interruptions to supply, low pressure, odour from wastewater assets and sewer flooding.                                                                                              |
| <b>D3</b>  | <b>Properties flooded in the year</b>       | The number of properties suffering internal sewer flooding per year.                                                                                                                                                                                                                                                                                                                              |
| <b>D4a</b> | <b>Business Customer Satisfaction</b>       | Business customer satisfaction as measured by either satisfied or very satisfied in the six-monthly survey undertaken.                                                                                                                                                                                                                                                                            |
| <b>D4b</b> | <b>Non Household Customer Satisfaction</b>  | Business customer satisfaction as measured by the average customer score out of a total of five then converted to a percentage.                                                                                                                                                                                                                                                                   |
| <b>D5</b>  | <b>Earning the Trust of Customers</b>       | Customer trust as measured in an annual survey we undertake.                                                                                                                                                                                                                                                                                                                                      |
| <b>E1</b>  | <b>Affordable Bills</b>                     | The Company will continue to make bills more affordable by maintaining falling bills in real terms, beating inflation by around 1% a year.                                                                                                                                                                                                                                                        |
| <b>E2</b>  | <b>Help for Disadvantaged Customers</b>     | The number of customers receiving assistance - the target is to help more customers who genuinely struggle to pay their bills by providing assistance through a range of social tariffs and our Customer Assistance Fund.                                                                                                                                                                         |
| <b>F1</b>  | <b>Asset Serviceability</b>                 | Maintain our assets. Serviceability includes a basket of sub-measures used by Ofwat to monitor the effectiveness of our asset management and the maintenance of our assets.                                                                                                                                                                                                                       |
| <b>F2</b>  | <b>Leakage</b>                              | Reduce our leakage levels – megalitres per day (Ml/d).                                                                                                                                                                                                                                                                                                                                            |
| <b>F3</b>  | <b>Asset Resilience</b>                     | Improve the resilience score of our most strategic assets.<br><br>Improve the percentage of strategic assets that are resilient against a set of criteria. Strategic assets are those where failure would have a major impact on service to customers or on the environment.                                                                                                                      |
| <b>G1</b>  | <b>RIDDOR Incidents</b>                     | The total number of injuries reported each year to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR).<br><br>It includes injuries that occur across the wholesale and retail businesses, as well as those involving our main contractors and capital partners.                                                        |
| <b>G2</b>  | <b>Competence in Role</b>                   | We have a "Progression in Role" framework and have established clear role profiles that define key criteria which we use to measure individuals' knowledge, skills and competence to undertake their respective roles.<br><br>Our objective is that by 2020 (and ongoing beyond that) 95% of the outlined key roles will be deemed competent (with the remainder being new starters in training). |
| <b>H1</b>  | <b>Financing Efficiency (credit rating)</b> | The rating ascribed by the three main rating agencies: S&P, Moody's and Fitch.                                                                                                                                                                                                                                                                                                                    |

## OUR CORPORATE STRUCTURE

**Glas Cymru Holdings Cyfyngedig (Glas Cymru)** is a company limited by guarantee which was formed on 15 December 2015. This company was created as part of a corporate restructuring which took effect on 1 March 2016, to be the new holding company for the Group. The most on all this new ultimate holding company enabled the creation of new subsidiaries which could undertake commercial investments outside the Common Terms Agreement which provides for the business operations over the regulated business under Glas Cymru Anghyfyngedig.

**Dwr Cymru Cyfyngedig** referred to as **Welsh Water** throughout this report is a wholly owned subsidiary of Glas Cymru and is the Group's principal trading company. Its principal activity is the supply of water and the treatment and disposal of wastewater under an instrument of Appointment (issued) made by the Secretary of State for Wales under the Water Act 1989.

**Glas Cymru Anghyfyngedig** is the former parent company of the Glas Cymru Group.

**Glas Cymru (Securities) Cyfyngedig** is the holding company for Dwr Cymru (Holdings) Limited and its subsidiaries.

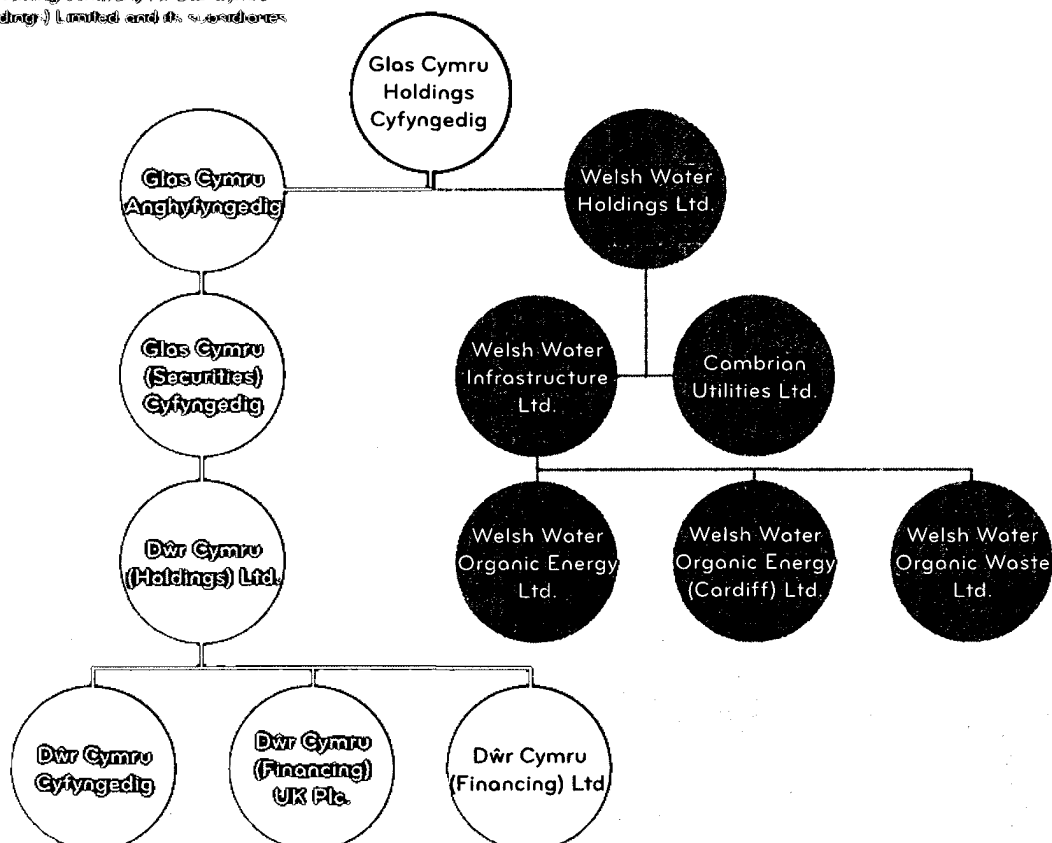
**Dwr Cymru (Holdings) Limited** is the intermediate holding company of Dwr Cymru Cyfyngedig, Dwr Cymru (Financing) UK Plc and Dwr Cymru (Financing) Limited.

**Dwr Cymru (Financing) UK Plc** is the issuer company for the Group's bonds which are listed on the London stock exchange. It was incorporated in April 2019 for the purpose of taking over all the existing debt instruments from Dwr Cymru (Financing) Limited in August 2019. The company will be the provider of any bond issues to Dwr Cymru Cyfyngedig.

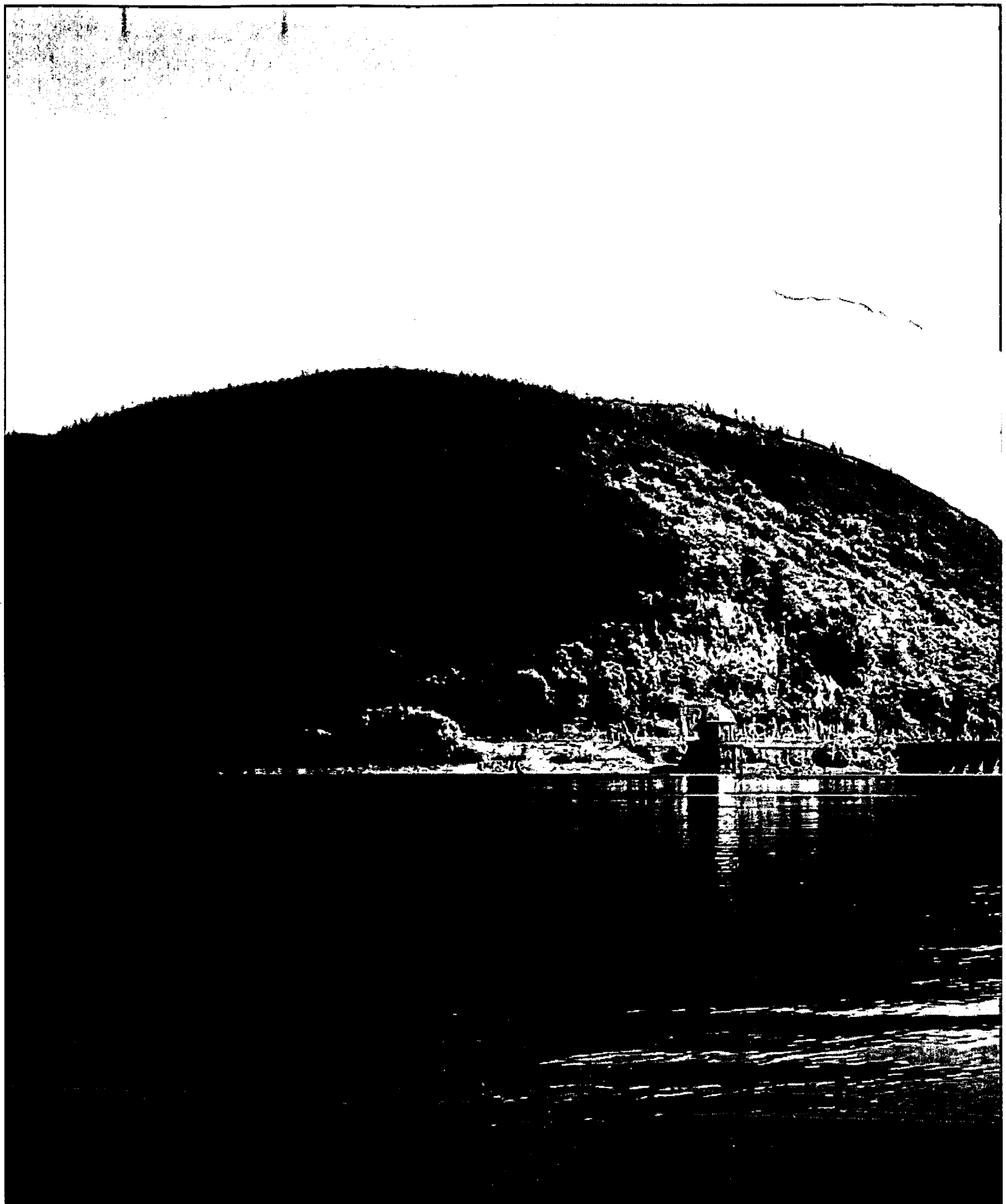
**Dwr Cymru (Financing) Limited (in voluntary liquidation)** is the former issuer company for the Group's bonds. In August 2019, all the debt held in this company was transferred to Dwr Cymru (Financing) UK Plc, as the new issuer of our bonds. Dwr Cymru (Financing) Limited was established prior to the acquisition of **Welsh Water** by Glas Cymru in 2014 and is a company duly registered in the Cayman Islands and in England and Wales. Since 2014 it has been managed, controlled and regulated in the UK for the purposes. The company entered into voluntary liquidation in September 2019.

**Welsh Water Holdings Limited** is a subsidiary of Glas Cymru Holdings Cyfyngedig and is the ultimate holding company for companies outside the Common Terms Agreement:

- **Combrian Utilities Limited** - created to offer contracted repair services to business customers, currently dormant while we wait to see how the competitive market for water business customers develops in England and Wales.
- **Welsh Water Infrastructure Limited** - pursues commercial projects.
- **Welsh Water Organic Energy Limited** and **Welsh Water Organic Energy (Cardiff) Limited** - former Waste Water companies, these subsidiaries were purchased in December 2017 and provide a waste-to-energy digester and composting services under a contract to Cardiff and Vale of Glamorgan and its partners supplying electricity from the digester process to our Cardiff Wastewater treatment plant.
- **Welsh Water Organic Waste Limited** was established in July 2018 to provide waste disposal services for trade effluent customers.







**glas**  
Glas Cymru Holdings Cyf



**Dŵr Cymru**  
**Welsh Water**

Glas Cymru Holdings Cyfyngedig  
Company Number: 09917809