RIIO-GD2 Regulatory Financial Performance Reporting ("RFPR")

Commentary

Year ended: 31 March 2025

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WALES&WEST UTILITIES

Executive Summary

Regulatory Financial Performance Reporting ("RFPR") is a regulatory licence requirement pursuant to Standard Special Condition A40.[1]

This report, in respect of the year ended 31 March 2025, should be read in conjunction with WWU's Strategic Performance Overview for the year ended 31 March 2025 and WWU's audited statutory accounts for the same period.[2]

A key measure of performance required by Ofgem is "RoRE" (Return on Regulated Equity). This measure is calibrated by Ofgem for two different levels of performance, one for operating performance which excludes debt financing and tax and is referred to as "Operational RoRE" and the other measure which includes debt financing and tax. Each of these two measures is then calibrated for notional regulated equity and actual regulated equity. "Regulated equity" is the portion of Regulated Asset Value ("RAV") attributed to equity.

RoRE Performance

RoRE based on Notional Regulated Equity of 40% of RAV	2021/22	2022/23	2023/24	2024/25	2025/26	GD2 Average
Allowed cost of equity	4.5%	4.6%	5.3%	5.6%	5.4%	5.1%
Totex performance, net of customer share	2.5%	0.9%	-0.7%	0.0%	-1.8%	0.1%
Incentives, penalties, other items	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Operational RoRE	**7.1%**	**5.6%**	**4.7%**	**5.7%**	**3.7%**	**5.3%**
Cost of debt performance	-1.5%	-6.0%	-8.7%	1.7%	-1.5%	-3.2%
Tax	1.8%	0.7%	1.5%	1.2%	2.0%	1.4%
RoRE including debt financing and tax	**7.4%**	**0.2%**	**-2.5%**	**8.6%**	**4.3%**	**3.6%**

1 The RFPR submission can be located on WWU's website, as required by paragraph 1.26 of the RFPR Regulatory Instructions and Guidance (RIGs), by following the link below in the "Regulatory Financial Performance Reporting" folder of the "Our Performance" section:

https://www.wwutilities.co.uk/about-us/publications/

For further information, please refer to WWU's RIIO-GD2 Year Four Strategic Performance Overview, which was submitted to Ofgem on 31 July 2025 together with the RRP. The link to this report on the WWU website is as follows:

https://www.wwutilities.co.uk/media/iftjb5t4/wwu-riio-gd2-year-four-strategic-performance-overview.pdf

2 WWU's audited financial statements for the year ended 31 March 2025 provide further information throughout, and are available using the link below:

https://beta.companieshouse.gov.uk/company/05046791/filing-history

Key remarks:

- Operational RoRE projected across RIIO-GD2 at 5.3% is slightly higher than the average projected allowed cost of equity of 5.1%, due to an average 0.1% totex outperformance (see below) for RIIO-GD2 and a positive impact of 0.1% from incentives penalties and other items.

- The cost of debt performance, which includes derivatives (as required by Ofgem for RoRE performance assessment, but Ofgem excludes most derivatives when settling its allowed cost of debt) is significantly adverse over RIIO-GD2, representing a reduction of 3.2% to the allowed RoRE. This is due to an inadequate allowance for WWU's efficiently and prudently incurred cost of debt including derivatives.

- The tax component shows a positive contribution to RoRE over RIIO-GD2 of 1.4%, largely a function of the significant underperformance on cost of debt of 3.2%.

- WWU projects an average RoRE, including financing and tax, of 3.6% for RIIO-GD2 against an average allowed cost of equity of 5.1%. This is largely due to inadequate allowances for cost of debt. This significantly adverse position impairs shareholder value and propensity to invest, WWU's financeability and investment grade credit profile.

When RoRE is evaluated using actual regulated equity, the position across RIIO-GD2 is a RoRE average of 3.5% p.a., not materially different to the 3.6% average above.

In respect of the totex outperformance noted above of 0.1%, this includes £50.1m of allowances for the HSE Policy and Specified Streetworks reopeners, representing 100% of the total value of our submission. GDNs agreed to include the full submission value, and consistently applied this methodology given Ofgem's draft determination was published late in July, too late for GDNs to amend their RRP submissions. The draft determinations were published by Ofgem at £26.6m; if this remains unchanged this will result in a downward movement in Totex performance. The next iteration of the Price Control Financial Model (PCFM) will reflect the draft determination position of these reopeners. We have responded to the draft determinations in our formal response to Ofgem.

Key Financial and Operational Performance Measures

For further key financial and operational performance measures, please refer to pages 11 – 26 of WWU's RIIO-GD2 Year Four Strategic Performance Overview submitted to Ofgem on 31 July 2025, for which a link is provided in footnote 1 in the Executive Summary.

Overview of Regulatory Performance

This section provides commentary for each of the tables within the RFPR submission to Ofgem in accordance with paragraph 4.3 of the RFPR RIGs.

R1 – RoRE

For information on RoRE, please refer to the Executive Summary section of this report.

R2 – Reconciliation of regulated revenue and profit to statutory revenue and profit

This table reports allowed regulated revenues per the latest published PCFM and reconciles collected regulated revenues to revenues in the statutory audited financial statements.

As required by the RIGs, the reconciliation to revenue on R2 uses the latest published PCFM for Allowed Revenue from row 11. It also uses the most recent, but unpublished, PCFM for Collected Regulated Network Revenue on row 25. As a result of using two different PCFM's, which are at different points in time, RRt reconciling items arise on rows 40, 42, 44 and 46, respectively.

In 2024/25, following review of the Directly Remunerated Services (DRS) definitions, we have updated DRS using our interpretation of the definitions. This has been completed in line with the licence conditions, and this has been acknowledged in communication with the regulatory finance team at Ofgem in 2025. This has resulted in adjustments to prior years reported numbers to reflect these agreed adjustments and consequently also been reflected in the R2 reconciliation. The remaining reconciling items on row 36 "Non-Regulated Revenues (excluding Directly Remunerated Services and De Minimis above)" primarily relates to metering services, connections and diversions.

Significant reconciling items in 2023/24 and 2024/25 are Supplier of Last Resort (SoLR) revenues of £26.4m and £0.7m, respectively. SoLR revenue constitutes a reconciling item because it is included gross within allowed/collected regulated revenues in the PCFM but for statutory reporting purposes SoLR revenues and costs are presented net within turnover.

The R2 reconciliation in RIIO-GD1 was limited to revenue. In RIIO-GD2 the R2 reconciliation extends to profits after tax, though this does not actually represent a "Reconciliation: Regulated Network Profit to Statutory Accounts" and is a simple comparison between the two. Statutory audited EBITDA figures have been linked to the revenue and Totex reconciliations within R2 and R3, respectively.

R3 – Totex reconciliation

The 'Totex per the latest PCFM' section of R3 has been taken from the latest PCFM, which will accompany this RFPR to be submitted to Ofgem by 30 September 2025, based on the Variable Values included within table 3.01 of the submitted 2024/25 RRP.

There has been a material movement in Totex performance compared with the 2024 RFPR submission.

Totex out/(under)performance within RoRE	2021/22	2022/23	2023/24	2024/25	2025/26	GD2 Avg.
Per the 2024 RFPR Submission	2.2%	0.4%	-1.9%	-3.3%	-2.3%	-1.0%
Per the 2025 RFPR Submission	2.5%	0.9%	-0.7%	0.0%	-1.9%	0.1%
Improved Totex performance	**0.3%**	**0.6%**	**1.2%**	**3.3%**	**0.3%**	**1.2%**

In relation to costs, we have seen a reduction to workload changes and increased efficiency across the business including the continuation of our non-regulated workload which moves costs outside of regulated Totex. Within allowances, following Ofgem's draft determinations of the HSE Policy and Streetworks re-openers, we have included a further £26m (18/19 prices) across RIIO-GD2. Further commentary in respect of Totex performance against allowances is included on pages 11 – 26 of WWU's RIIO-GD2 Year Four Strategic Performance Overview for which a link is provided in footnote 1 in the Executive Summary.

The second half of this table reflects the data from the financial statements of WWU for the year ended 31 March 2025 (and earlier years) reconciled to reported Totex costs for the regulatory year per the respective RRPs. The reconciliation is detailed and self-explanatory.

Enduring Value Adjustments (EVAs)

As in prior years, no EVA's have been identified in R3. As per the RFPR RIGs Glossary, EVAs are defined as the 'true value of the regulated business over the course of the price control.' The enduring value of the business factors in the financial impact of any decisions or future events, which have yet to be reflected in Revenue and RAV but are known at the time of estimation. The enduring value represents the 'establishment of sustained long-term value to the regulatory network or to its operation.' Because of the introduction by Ofgem of a significant number of additional Variable Values in RIIO-GD2, particularly variant Totex allowances, and the AIP allowing for these PCFM Variable Values to be updated during the course of the price control for outturn actual data as well as forecast data, WWU does not consider any EVAs currently exist. As in prior years, we would however welcome further guidance from Ofgem in this area.

R4 – Incentives and Other Revenue

This table reflects annual actual and forecast performance against the RIIO-GD2 price control incentives as well as Other Revenue Allowances (ORAs). Data included within R4 – Incentives and other revenue were also included within the 2024/25 RRP.

Company Compulsory Contribution (including % contribution funded by the licensee) towards "Strategic Innovation Fund" funding on row 57 for forecast years is assumed to be 10%, consistent with prior years RFPR submissions.

For the first three years of RIIO-GD2, Network Innovation Allowance (NIA) and Carry Over RIIO-1 Network Innovation Allowance (CNIA) are consistent with the allowances reported in the 2024 RFPR submission. Our NIA expenditure in 2024/25 was marginally higher than forecast however we continue to forecast a reduction to £10.0m across the price control which is £3.3m lower than the allowance.

R5/R6 - Financing and Net Debt position

Regulatory Net Interest including forecast new financing/refinancing costs

Per the 2023/24 and 2024/25 RFPR RIG's, page 17, we understand row 31 of R5 – Financing "Regulatory Net Interest including forecast new financing/refinancing costs" will form the input for Tax Deductible Net interest (TDNIt) for the Tax Clawback calculation in the PCFM. We have therefore included the accrual for inflation accretion on RPI index-linked swaps, RPI-linked swaps net swap expense / (income) and Interest rate swaps net swap income in rows 22-24, so that it forms part of the total in row 31. In the RIIO-GD2 RFPR submissions prior to 2023/24 these three components had been included in rows 50-52 forming part of the "Adjustments to be applied to Assumed Finance cost for performance assessment" section of R5. There is no impact on RoRE arising from the change in approach.

This position is without prejudice to WWU's legal position, and which remains the subject of a Judicial Review currently scheduled to take place in October 2025. It is also without prejudice to WWU's submissions to Ofgem relating to RIIO-GD3.

Cost of Debt

WWU continues to have a significant shortfall against the Cost of Debt allowance for RIIO-GD2 due to insufficient allowances for efficiently incurred debt costs. WWU's cost of debt has been efficiently and prudently incurred but is not fully compensated for by the methodology used by Ofgem for calculating Allowed Cost of Debt. As noted in the Executive Summary, this reduces RoRE by 3.2%, and is the main reason overall RoRE, based on notional gearing, is 3.6% compared to an allowed cost of equity of 5.1%.

There is a 3% increase to Debt Performance at the notional level in 2024/25 compared to the 2024 RFPR submission in respect of 2024/25. This is largely due to a £25.1m decrease in Regulatory Net Interest for RORE performance purposes including forecast new financing/refinancing costs due to favourable market movements impacting swap accretion charge and net swap interest. For 2024/25, there is a £6.5m increase to the Inflation component of nominal finance cost in row 38 of R5 – Financing compared to 2024 RFPR submission. £7.2m of that increase relates to the updated YE Factor change indices provided by Ofgem for 2024/25,

Accretion cashflows on RPI index-linked swaps is included within row 34 of R5a – Financing Input, "Other".

Row 69 of R5a – Financing Input is an adjustment line to balance back RFPR calculated accrual costs in row 47 to internally calculated accruals. Differences arise due to predominantly due to differences in timing of weighted floating rates.

We note that the LIBOR rates in column L (2023) of I1 – Universal Data tab have changed from the 2023/24 template. This is causing some small differences on floating rates reported in that year compared to prior submissions.

R7 – RAV

Data reported within table R7 reflects the 'Latest PCFM' being the Legacy GD2 PCFM updated to reflect the 2024/25 RRP submitted to Ofgem in July 2025.

R8 – Tax

The tax allowance included within R8 has been taken from the latest GD2 PCFM submitted to Ofgem in September 2025 for the purposes of populating the RFPR. The PCFM includes adjustments to Variable Values updated following the 2024/25 RRP submission, and the RRP RIIO-GD2 Year Four Strategic Performance Overview and PCFM Supporting Commentary includes detailed commentary in respect of the updates to actual and forecast values.

The Adjusted/forecast regulated tax liability outturn for 2024/25 and revised forecasts for 2025/26 are materially higher than the forecasts for 2024/25 and 2025/26 included in the 2024 RFPR submission due to higher profits before tax than previously forecast giving rise to a higher Adjusted/forecast regulated tax liability. The outturn Tax Allowance per latest PCFM for 2024/25 is higher than the allowance previously forecast due to lower pass through costs and lower opex allocated to revenue tax pools than forecast.

The tax performance in the RoRE calculation compares Wales & West Utilities adjusted forecast CT600 tax liability against the tax allowance set as part of the RIIO-2 price control including the impact of deviating from notional levels of gearing in the form of tax clawback.

R9 – Corporate Governance (including commentary on Financial Resilience)

Corporate Ownership and Governance Framework (RIGs 4.18 - 4.21)

Corporate ownership structure

A diagrammatic structure chart of the UK group companies is included in Appendix 1 together with the wider corporate structure of the group.

The section below on UK group structure and ultimate ownership is taken from page 94 of the annual financial statements of Wales & West Utilities Ltd:

The immediate parent company is Wales & West Utilities Holdings Limited (WWUH), a private company limited by shares and registered in England and Wales with registered number 07092596. WWUH is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The Company's ultimate parent Company, and the largest undertaking to consolidate these financial statements, is Wales & West Gas Networks (Holdings) Limited, a private company limited by shares and registered in England and Wales with registered number 05095454.

Wales & West Gas Networks (Holdings) Limited, the Group, has no controlling party as it is immediately owned by consortium members. Copies of the annual consolidated financial statements of Wales & West Gas Network (Holdings) Limited and Wales & West Utilities

Holdings Limited may be obtained from their registered office, The Company Secretary, Wales & West Gas Networks (Holdings) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

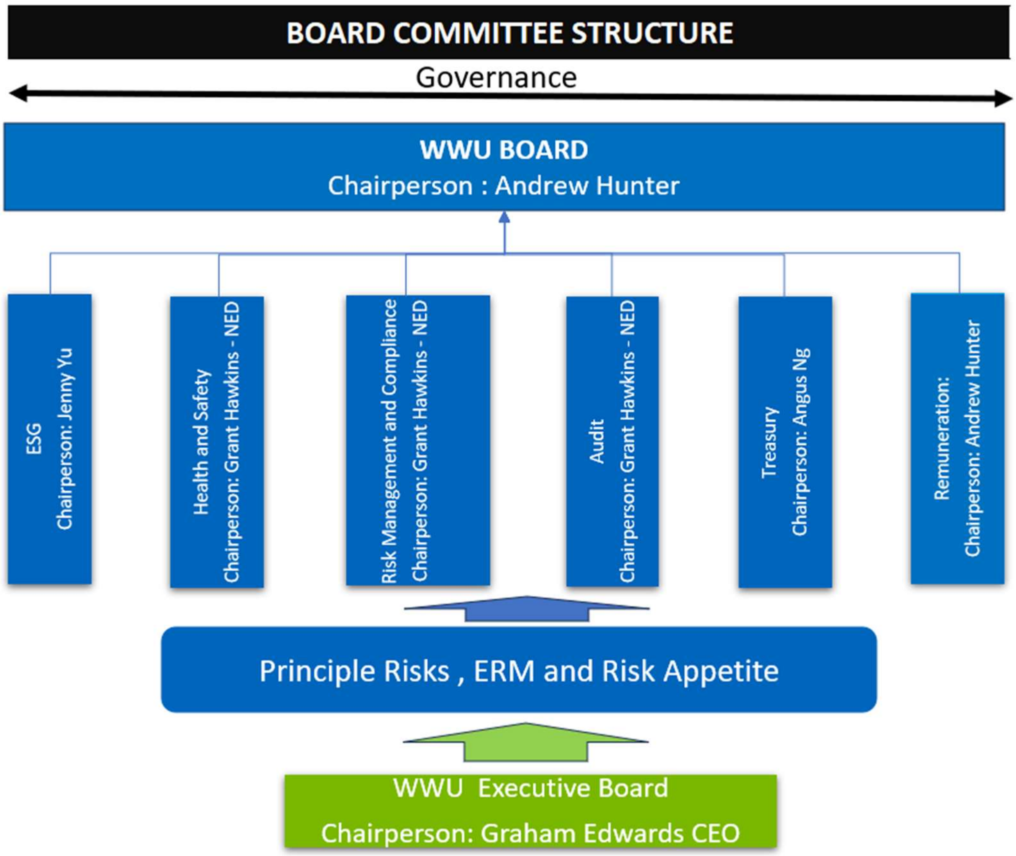
The shares in the ultimate parent company, Wales & West Gas Networks (Holdings) Limited, are owned equally by West Gas Networks Limited and Western Gas Networks Limited. These two companies are ultimately owned by a consortium comprising Cheung Kong (Holdings) Limited (3%), CK Infrastructure Holdings Limited ("CKIH") (39%), Power Assets Holdings Limited (36%) and CK Asset Holdings Limited (22%).

No decision-making responsibilities within WWU in respect of the matters listed in paragraph 4.20 of the RFPR RIGs are reserved for any parent or group company.

Directors and Committee's

More information on the role of the Directors and Corporate Governance Framework can be found on pages 29 to 33 of WWU's statutory accounts for the year ended 31 March 2025.

The Board committee governance structure, as found on page 31 of the WWU statutory accounts, is shown below:



All statutory corporate filings can be obtained from Companies House: https://find-and-update.company-information.service.gov.uk/company/05046791/filing-history

Details of the Directors are shown in the table below:

			Committee					
Name	**Role**	**Classification**	**(A)**	**(R)**	**(H)**	**(T)**	**(E)**	**(RC)**
Andrew Hunter (appointed 10 Oct 2012)	Chair	Non-Executive Director		X				
Graham Edwards (appointed 1 June 2005)	Chief Executive Officer	Executive Director			X		X	
Dominic Chan (appointed 10 Oct 2012)		Non-Executive Director		X				
Hing Lam Kam (appointed 10 Oct 2012)		Non-Executive Director		X				
Duncan Macrae (appointed 10 Oct 2012)		Non-Executive Director	X	X	X	X	X	X
Charles Tsai (appointed 10 Oct 2012)		Non-Executive Director	X		X		X	X
Grant Hawkins (appointed 27 Mar 2014)	SID	Independent Non Executive Director	X	X	X	X	X	X
Mike Davis (appointed 1 April 2023)	SID	Independent Non Executive Director	X	X	X	X	X	X
Neil Henson (appointed 10 June 2013)	Alternate to Graham Edwards	Executive Director						
Neil McGee (appointed 10 Oct 2012)	Alternate Director to Dominic Chan	Non-Executive Director						
Angus Ng (appointed 18 April 2024)	Alternate Director to Hing Lam Kam	Non-Executive Director	X			X		X
Jenny Yu (appointed 18 April 2024)	Alternate Director to Charles Tsai	Non-Executive Director				X	X	
Kim Slaminka (appointed 18 July 2024)	Alternate Director to Duncan Macrae	Non-Executive Director						

(A) Member of the Audit Committee

(R) Member of the Remuneration Committee

(H) Member of the Health & Safety Committee

(T) Member of the Treasury Committee

(E) Member of the ESG Committee

(RC) Member of the Risk Management and Compliance Committee

Executive Remuneration Policies (RIGs 4.22 - 4.27)

Executive Directors' remuneration (including members of the Executive Team) are based on overall company responsibilities and the policy is to ensure that they are rewarded competitively by providing remuneration consisting of a basic salary, benefits and annual performance related bonus, part of which is deferred, which require the achievement of demanding performance targets designed to deliver regulatory requirements. These targets are listed below and include safety, standards of service, customer satisfaction, environmental and financial and are weighted 50% based on personal targets and 50% based on corporate targets. Remuneration is at risk if deliverables are not achieved on an annual basis.

Bonuses are reviewed and approved by the Remuneration Committee (RemCo) and paid in respect of a calendar year. The performance bonus is apportioned between an amount due as a lump sum payable after the year end (STIP), and the balance payable under a long term incentive plan (LTIP). The amount due under the long term incentive plan is payable three years after the year in which the award arose. The payment of the performance bonus is conditional on the director remaining in office on the payment date.

STIP bonus performance measures included the following (and maximum weightings) : EBIT (20%), net cash from operating activities post capex and interest (20%), lost time injuries (2%), injuries to members of the public (2%), gas escapes (uncontrolled 1 hour : 2%), Ofgem customer surveys (2%) and environmental business carbon footprint (2%). The remaining 50% is based upon personal objectives as set at the discretion of the Board (for the CEO) and at the discretion of the CEO (for the Executive management team).

LTIP bonus performance measures (and maximum weightings) included Profit after Tax (CEO 25.0% / Executive team 12.5%), and Distributions Paid in the year (CEO 25.0% / Executive team 12.5%).

The CEO is responsible for ensuring leadership through effective oversight and review, setting the strategic direction of the business (as part of the Board). From an operational performance perspective, constantly striving to ensure the committed Price Control Deliverables within the current control period are met, whilst aiming to deliver sustainable shareholder value over the longer term.

Because executive remuneration policies are based on delivering the regulatory requirements for the year through setting safety, standards of service, customer satisfaction and financial targets, this ensures alignment with customer and stakeholder interests, the purpose, culture, and values of the organisation; and long-term delivery of the licensee's strategy.

The RFPR RIGs paragraph 4.26 refers to "reported CEO pay ratios", however as a private limited company, there is no company law requirement for WWU to report the CEO pay ratios, as also referred to in its published audited financial statements. They do not therefore form part of WWU's remuneration policies and accordingly no comment is made as to whether CEO pay ratios, reported for RFPR purposes only, are consistent with policies on remuneration.

The role of the RemCo is to consider and determine the terms and conditions of employment of senior management, including salary, bonus, and pension entitlements. The activities of the RemCo meetings are reported to the Board at least annually. The composition of the RemCo (R) is outlined in the Directors section above. The RemCo sets the performance targets at the start of the year and assesses performance against those targets on an annual basis both for personal and for corporate targets. The RemCo has the discretion to override the formulaic outcome of the annual performance targets in the event these are not seen as representative of the overall performance of the company.

R10 – Pensions & other activities

Pensions

The forecast Established deficit (EDE) allowance as per latest PCFM for 2024/25 and 2025/26 has increased from £8.4m to £12.0m (both 18/19 prices) since earlier submissions of the RFPR following the conclusion of Ofgem's triennial review of pension scheme established deficits in November 2023.

A full actuarial valuation as at 31 March 2022 was completed by Lane Clark & Peacock, showing a deficit, on a technical provisions' basis, of £49.4m. The calculations conducted to produce the results of that valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities were measured using the projected unit method.

The Company agreed and currently maintains a revised 9 year deficit recovery plan following the 31 March 2022 actuarial valuation, with contributions of £9.0m due for the year ended 31 March 2023 (2021/22 - £9.0m agreed per the 31 March 2019 valuation), £7.5m for the year ended 31 March 2024, £6.5m per annum until 31 March 2028 and £6.0m per annum until 31 March 2031.

The split of these repair payments into those amounts funded via specific allowances (pre 2013 deficit ~ the established deficit) and those funded through Totex (post 2013 deficit ~ the incremental deficit) has been consistently applied based on the 2019 and 2022 valuations on a 75.7% to 24.3% split.

Other activities

Guaranteed Standards of Performance payments (GSoP) are statutory payments at rates set by Ofgem. WWU paid £0.3m for the year ended 31 March 2025 excluding ex-gratia and voluntary GSoP payments (2024: £0.3m). This has been included within the RFPR.

Data Assurance Statement

The 2024/25 RFPR has been completed in line with the RIGs and on this basis a full Data Assurance Guidance (DAG) process has been conducted.

Management prepared methodology statements and completed risk assessments for each RFPR table. All tables were subject to the requisite first line assurance i.e., data preparer, second person review, business lead sign-off and executive sign-off, and these review stages included the following checks:

- Agreeing data to already published information where possible, including the RRP, and statutory financial statements, where such information has already been subject to varying levels of validation and data assurance;
- Agreeing data to the underlying workbooks;
- Reperforming calculations to ensure the correct results within the tables; and
- Ensuring the commentary is aligned with the tables.

A final review has been undertaken by the Chief Financial Officer.

UK Group Companies