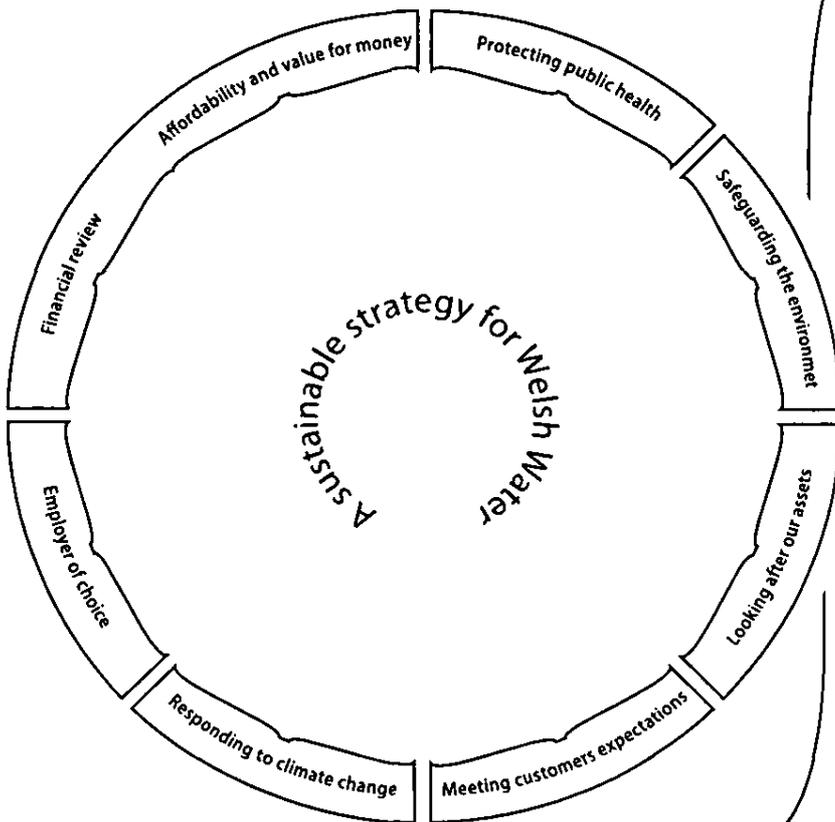


REPORT AND ACCOUNTS 2008

Glas Cymru Cyfyngedig
Company Number: 3975719

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COMPANIES HOUSE 295



Our performance at a glance

The Board has identified eight key performance indicators (KPI's) to monitor the success of the business, seven of which reflect our key financing and customer service strategies, i.e. reducing long term financing costs and improving customer service. The eighth addresses occupational health and safety and the fundamental right of all those who work on our behalf, or are affected by our undertaking, to return home safely at the end of each day.

Customer service KPI's cover Ofwat's assessment of Overall Performance Assessment (OPA), customer satisfaction and overall bacteriological water quality. For occupational health and safety we monitor the Accident Incidence Rate (AIR). [1](#) [2](#) [3](#) [4](#)

Financial KPI's cover:

- » Bond credit rating; [5](#)
- » Gearing; [6](#)
- » Interest cover; and [7](#)
- » 'Customer dividend' [8](#)

Further information regarding the definition, purpose and target for each of these KPI's can be found on page 28 of this report.

In addition to these KPI's we also report key performance measures for Welsh Water that we have published each year since Glas Cymru acquired Welsh Water in 2001. Further information regarding the definition of these indicators can also be found on page 28.

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Key performance measures

Year to 31 March 2008	Monitoring Plan target ⁴	Previous performance 2006-07	Actual performance 2007-08	At or better than previous year
Customer service				
Properties 'at risk' of receiving low pressure	242	221	220	✓
Unplanned water supply interruptions	1,080	313	3,848	✗
Properties 'at risk' of sewer flooding	308	432	365	✓
Properties flooded due to hydraulic overload	106	96	78	✓
Properties flooded due to other causes	120	203	167	✓
Billing enquiries answered within 5 days	100%	100%	100%	✓
Written complaints answered within 10 days	99.9%	99.7%	99.2%	✗
Number of written complaints received	n/a	10,586	10,628	✗
Customer meters read within year	99.9%	99.9%	99.9%	✓
Telephone calls abandoned	1.3%	1.7%	2.9%	✗
Telephone calls receiving engaged tone	0%	0.3%	0.4%	✗
Call handling satisfaction (score out of 5)	n/a	4.57	4.61	✓
Water quality				
Overall water quality compliance 'at the tap' ^{1c}	n/a	99.9%	99.9%	✓
Bacteriological compliance 'at the tap' ^c	n/a	99.5%	99.6%	✓
Iron compliance 'at the tap' ^c	99.1%	99.1%	99.5%	✓
Operational Performance Index ^c	n/a	99.8%	99.7%	✗
Distribution Maintenance Index ^{2c}	n/a	99.7%	99.8%	✓
Environment				
Leakage (m ³ /km/day)	7.5	7.7	7.5	✓
Number of 'category 1 and 2' pollution incidents ^c	n/a	17	9	✓
Number of 'category 3' pollution incidents ^c	n/a	208	260	✗
Wastewater treatment works assessed as complying with (LUT) consents ^c	n/a	99.5%	99.1%	✗
Sewage sludge recycled satisfactorily ^c	100%	100%	100%	✓
'Mandatory' coastal bathing water compliance at EU designated bathing beaches ^c	100%	99%	99%	✓
'Guideline' coastal bathing water compliance at EU designated bathing beaches ^c	'Stable'	89%	86%	✗

¹ This measure is now based on 'Mean Zonal Compliance'.

² Formerly OPI (TIM).

³ 'Look up' table.

⁴ The Monitoring Plan sets out the targets agreed with regulators at the Regulatory Price Review in 2004 and covers the five year period to 31 March 2010.

^c Calendar year 2007 all other figures are for the year ended 31 March 2008.

Chairman's statement

OVERALL, IT WAS A YEAR OF STEADY PROGRESS FOR THE COMPANY, WITH A GOOD PERFORMANCE ON MOST OF THE MEASURES THAT MATTER FOR OUR CUSTOMERS AND THE ENVIRONMENT PLUS A FURTHER STRENGTHENING OF OUR FINANCIAL POSITION AS A RESULT OF IMPROVED EFFICIENCY.

Glas Cymru acquired Welsh Water in May 2001, and in the period since then we are the only regulated water and sewerage company to have reduced its operating costs in real terms. Last year our operating costs were another 3% lower in real terms. Added to the financial efficiency we have achieved in funding Welsh Water's continuing large capital investment programme, we have been able to increase our financial reserves at the year end to nearly £1 billion and increase our annual 'customer dividend' to £21 per customer. This brings to over £120 million the total value of 'customer dividends' returned to customers over the last 5 years and as a result Welsh Water's average household bill has been getting closer to the industry average.

Few things are more important than safe drinking water and safe sanitation. Keeping the cost of this the most essential of public services affordable will always be one of our top priorities. This year we are trialling a new tariff - 'Water Direct' - which gives an additional £25 discount to customers who choose to have their water bill paid direct from their qualifying benefits. For some of our least well off customers this discount plus the 'customer dividend' would reduce their water bill by more than 10%.

Compliance with water quality standards remained high and we achieved our best ever result in meeting the standard for iron. This is due in large part to our 10 year water mains refurbishment programme which when it ends in 2010 will have seen over 4,000km of

unlined iron water mains renewed at a cost of some £400 million. Compliance on some other measures was slightly down on the previous year, and evidence of deteriorating raw water quality, particularly in North Wales, led the Board to decide to accelerate investment which will add additional stages of treatment at 18 water treatment works at a total cost of around £100 million. The outbreak of illness caused by cryptosporidium in parts of Gwynedd in the winter of 2005 - for which we were prosecuted by the Drinking Water Inspectorate in October last year - is a stark reminder of the importance of knowing and managing all the risks to do with public water supply. We have strengthened our capabilities in this key area and have been making excellent progress in developing Drinking Water Safety Plans for all our 87 water supply zones.

Last summer's severe storms inundated our water treatment works at Whitbourne in Herefordshire and led to the loss of supply for around 3,400 customers for 18 hours. We received only a few complaints and more letters of thanks. Last summer's exceptional weather also caused serious problems on our sewer network right across our region. On behalf of the Board I would like to thank all our staff who did such a remarkable job in minimising the impact of these storms and getting services back up and running again very quickly.

Notwithstanding the exceptional weather we saw last year, we cut the number of sewer flooding incidents by 15% and reduced the number of serious pollution incidents by half. This improvement in performance is particularly welcome as it comes in the two areas where we have in the past lagged the rest of the industry. Installation of telemetry onto our sewerage network to provide early warning of problems - a project that will be complete by the middle of this year - will deliver further improvements.

On most service measures we achieved good results, and regular customer opinion research continues to show satisfaction levels of more than 80%. However, we judge that too many of the complaints we receive are avoidable and there is still more we must do to improve our day to day customer service. We are currently investing in new IT systems and processes which will allow us to respond more quickly and efficiently to customer service jobs and keep our customers informed of progress and as such deal with one of the main causes of complaints.

New IT systems and processes are also being implemented to support our asset management and planning activities. This capability is now all the more important as our capital investment programme moves away from building new facilities to maintaining our £15 billion network of existing assets.

In August we will be submitting our Draft Business Plan ahead of Ofwat's price review in 2009. In line with our 25 year Strategic Direction Statement published last year we will be aiming for flat bills overall in real terms for the period after 2010. Protecting the high quality of service to customers will require that the current rate of investment continues, but with more of the programme being directed at much needed asset renewal and maintenance. Our plans accommodate the transfer of private sewers, which we estimate will increase our sewer network by more than half after 2010, and include plans for advanced sludge digestion which will reduce our carbon emissions by around 15%.

If anything, the water industry now faces greater challenges than ever before. As last summer's floods and the previous year's severe drought in England showed, the water industry is on the front line when it comes to responding to the increasingly erratic weather patterns associated with climate change.

In addition, Ofwat is consulting on proposals to introduce as much competition as possible into the regulated water sector. For our part, we are proud to provide a public service. All the efficiency savings we make are retained for the benefit of our customers and pay for 'customer dividends' and better value for money. As a 'not for profit' company our only purpose is to look after this essential long term industry on behalf of today's customers and future generations.

Clear responsibility for the quality of drinking water from source to tap and for dealing with wastewater so that both public health and the environment are safeguarded is of the utmost importance. In responding to Ofwat's consultation on competition we will continue to argue our view that this can be best achieved through an integrated company operating within a consistent and transparent regulatory regime.

As always, on behalf of the Board, I would like to thank all the staff who work for us in this important industry – their continuing commitment and enthusiasm is so very important to what we do and stand for and it is never taken for granted. Alison Carnwath, one of our founder Non Executive Directors, stood down from the Board in August and I would like to take this opportunity to thank her for all that she did for the Company in its formative years. I would also like to give a very warm welcome to Bob Ayling who joined the Board as a Non Executive Director in April 2008.



Lord Burns, Chairman

OUR SOLE PURPOSE IS TO PROVIDE HIGH QUALITY WATER AND SEWERAGE SERVICES AT LEAST COST TO WELSH WATER'S CUSTOMERS.

Business review

Glas Cymru Cyfyngedig (Glas Cymru) is the single purpose company established in 2000 to own, finance and manage Dŵr Cymru Welsh Water (Welsh Water). As a 'company limited by guarantee' the company has no shareholders and any financial surpluses are retained or reinvested for the benefit of Welsh Water's customers.

Under our 'not-for-profit' business model, Welsh Water's assets and capital investment requirements are financed by bonds, loans, finance leases and retained financial surpluses. All day-to-day activities are performed by specialist contractors and service providers (contract partners) employed by Welsh Water following a competitive procurement process. The aim is to reduce Welsh Water's asset financing costs, the water industry's single biggest cost, and improve service delivery by employing the best companies for each distinct activity in the business.

Savings from financing efficiency have, to date, largely been used to build up reserves to insulate Welsh Water and our customers from any unexpected costs and also to improve credit quality so that Welsh Water's cost of finance can be kept as low as possible in the years ahead. These savings have also funded some additional discretionary investment in service improvements and an annual 'customer dividend' which, since its introduction six years ago, has returned over £120 million to customers.

Company structure and market

Welsh Water, wholly owned by Glas Cymru, is the sixth largest of the ten regional water and sewerage companies in England and Wales, representing around 8% of the sector when measured by assets employed. We provide an essential public service to more than three million people living in Wales and some adjoining parts of England. Our primary responsibility is to operate, maintain and upgrade assets so as to ensure a safe and reliable supply of drinking water and to deal effectively with wastewater in order to protect public health and the natural environment.

Welsh Water was established in 1989, when the water industry in England and Wales was privatised and is Glas Cymru's principal trading subsidiary. In total around 3,000 people are employed by contract partners in delivering water and sewerage services to our customers, but only 178 staff work directly for Welsh Water.

In delivering these services Welsh Water operates a large network of infrastructure assets with a replacement value today of around £17 billion. The network comprises 67 impounding reservoirs and 68 water treatment works which deliver a daily average of around 840 million litres of drinking water through a network of 27,400 km of water mains, 714 pumping stations and 654 service reservoirs. Welsh Water also collects wastewater and surface water through a network of 19,000 km of sewers, that includes 1,861 sewage-pumping stations and 3,200

combined sewer overflows. Treatment is carried out at 833 wastewater treatment works. Welsh Water also owns over 35,000 hectares of land, much of which has a high value in terms of nature conservation and recreational use.

To ensure that the interests of Glas Cymru and Welsh Water are fully aligned, the Directors of Glas Cymru are also Directors of Welsh Water. The Board is accountable to the Members of Glas Cymru, who are appointed on the recommendation of an independent Membership Selection Panel. The Members carry out similar corporate governance functions to shareholders in a company limited by shares, by electing the Board and external auditors, and approving the Annual Report and Accounts and the Remuneration Report. During the year 21 new Members were appointed following public advertisement, bringing the total number of independent Members to 72 (2007: 51).

Welsh Water meets many of its obligations as a regulated water and sewerage service provider through contract partners. One partner is responsible for clean water delivery 'from source to tap', and the operation of the wastewater service is divided geographically, with one contract partner responsible for north Wales, and one for south Wales and Herefordshire. Other functions are provided through 12 other contract partners, and include capital investment and maintenance and support services, such as billing and income, IT, laboratories and sampling, and network development services.

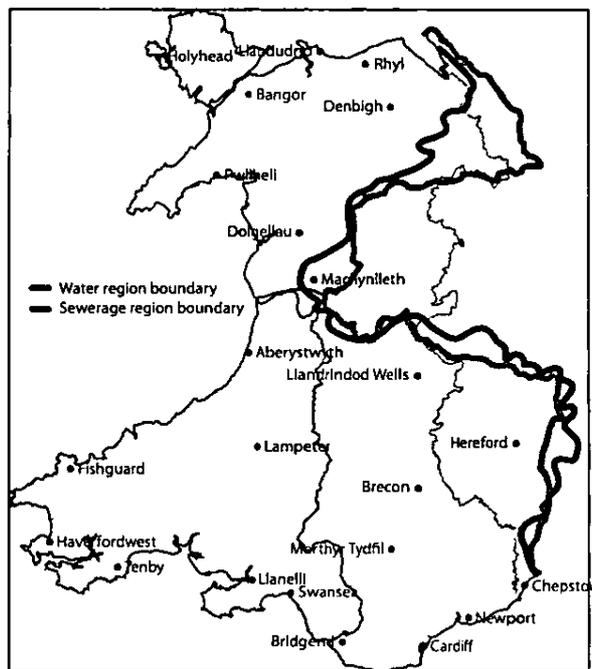
SEPTEMBER 2007
 Glas Cymru calls for new water
 company members.

This outsourcing together covers around 85% of Welsh Water's annual operational and capital costs.

Welsh Water retains ultimate control of all activities carried out by contract partners and has the ability to exercise that control. Contracts are designed to ensure that the company is not locked-in to any one contract partner or set of working arrangements and that they operate on a transparent basis so that Welsh Water retains access to all staff, information and knowledge required to meet legal and regulatory obligations. Welsh Water also determines asset strategy and retains final responsibility for decisions regarding key assets.

Contracts are specified and structured to enable contract partners to deliver the best possible combination of quality of service and cost efficiency, and partners are incentivised to deliver sector-leading outcomes. They are also structured to achieve an efficient allocation of risk, with complementary provisions for incentive and reward between Welsh Water and its contract partners. This is built on the essential principles of openness and transparency, which allows disclosure of trade-offs between cost, risk and service performance, with the aim of securing the best outcomes for Welsh Water's customers.

Further information on our approach to competitive tendering can be found in Welsh Water's published Procurement Plan, available on our website: www.dwrcymru.com.



Water network and process works

United Utilities
 Black and Veatch
 Laing O'Rourke

Wastewater network and treatment (north)

United Utilities
 Costain
 Imtech Process

Wastewater network and treatment (south west)

Kelda Water Services
 Imtech Process
 Morrison Construction

Wastewater network and treatment (south east)

Kelda Water Services
 Morgan Est
 Imtech Process

Other partners

Chandlers KBS
 Capgemini
 EC Harris
 Hyder Consulting
 Logica CMG
 Tata Consulting
 Veolia
 Severn Trent Laboratories

Regulatory environment

The Water Services Regulation Authority (Ofwat) is the economic regulator of the water and sewerage industry in England and Wales. Ofwat is responsible for setting an upper limit on the price that each regulated water and sewerage company can charge its customers, and for promoting the interests of customers by rewarding efficiency and high standards of service and penalising inefficiency and poor service.

The industry operates on a five-year asset management cycle and 2007-08 was the third year of the current Asset Management Period (AMP4) which began in April 2005 and ends in March 2010. Welsh Water's settlement for AMP4 is based on a capital expenditure programme costing, in total, some £1.4 billion, similar to that of the previous five year period. It also assumed that the average Welsh Water customer's bill would increase by no more than 3.6% above retail price inflation each year during the review period, compared to a sector average of 4.3%. In 2006-07 and 2007-08 Welsh Water paid a 'customer dividend' of £20 and £21 per customer (i.e. £10.00 and £10.50 respectively per service).

The regulator with responsibility for drinking water quality is the Drinking Water Inspectorate (DWI), which is part of the Department of the Environment, Food and Rural Affairs (DEFRA) and also acts on behalf of the Welsh Assembly Government in respect of Welsh Water. Under the DWI's audited quality monitoring procedures, Welsh Water conducts more than 300,000 tests of water quality each year. The Environment Agency oversees Welsh Water's environmental performance, specifically with regard to the way in which it abstracts water from rivers and reservoirs, and then disposes of wastewater after it has been treated.

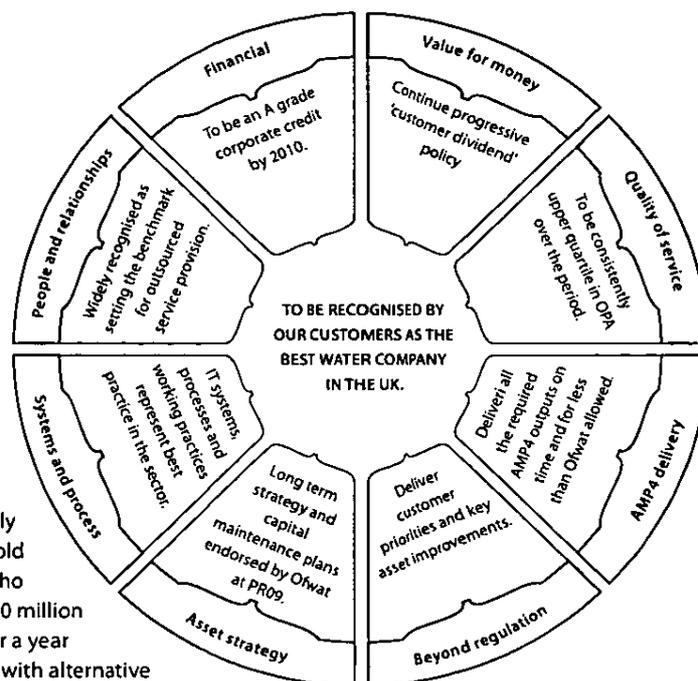
The Countryside Council for Wales and, in England, Natural England, oversees Welsh Water's management of designated sites for nature conservation, including 'sites of special scientific interest', and how the company meets our obligation to conserve or improve biodiversity at these sites

The Consumer Council for Water (CC Water) is the independent body established to represent the general interests of customers of water companies. CC Water investigates individual concerns and complaints and seeks to influence company policy on issues that customers regard as important.

The Welsh Assembly Government also has a role in determining water and environmental quality standards, as well as setting the framework for other public policy matters such as social considerations arising from water tariff structures.

All aspects of Welsh Water's water and wastewater operations are subject to extensive performance monitoring against standards and targets set by regulators and government. Each year regulators publish reports commenting on and comparing the performance of water companies across a full range of measures, including cost efficiency, customer service, water quality and environmental quality. Each has powers that can be used to challenge Welsh Water in the event that performance is not up to standard.

During 2007-08 Welsh Water commenced a process of strategic and investment planning for the next AMP period (AMP5, which will begin in April 2010 and end in March 2015), and is well positioned to submit our detailed investment proposals to Ofwat in April 2009. Through a Price Review Forum for Wales led by the Welsh Assembly Government, Welsh Water is consulting with regulators and other stakeholders to establish, in so far as is possible, a common view on the appropriate balance between investment, water quality and environmental standards, customer service and the size of the customer bill in Wales.



Our approach to AMP5 is shaped by the commitments that we set out in a 25-year strategic direction statement, published in November 2007, entitled *Welsh Water: Our Sustainable Future*. The document sets out four main aims:

- » Even higher quality standards – for drinking water, customer service, and the protection of the environment
- » A zero tolerance approach to pollution and service failure
- » At least a 50% cut in greenhouse gas emissions
- » The lowest possible customer bills - lower than those of other equivalent water companies.

In line with the last of these, our aim will be to keep customer bills flat, in real terms over the course of AMP5.

Competition

The framework for competition in the water sector is set out in the Water Act 2003, which allows Ofwat to authorise licensed suppliers who can provide retail services only, or use the regional water company's network to deliver water supplies to their own customers. Ofwat has a duty to protect the interests of customers, wherever appropriate, by promoting efficient competition.

Currently, only non-household customers who use at least 50 million litres of water a year can contract with alternative suppliers, although DEFRA is reviewing this threshold. Welsh Water does not have a high concentration of non-household customers, with the 25 largest customers (by volume) accounting for less than 5% of total revenues. To date no customers have switched to any of the - currently seven - new licensed water suppliers.

Competition is also possible via inset appointments where a water company's area of supply is modified. To date, Ofwat has authorised 16 inset appointments in the industry, of which one is operating in Welsh Water's supply area.

Financing

The group's bonds are listed on the Luxembourg Stock Exchange in the name of Glas Cymru's wholly owned financing subsidiary, Dŵr Cymru (Financing) Limited, and further details of these can be found on page 24. Glas Cymru's strategy on financing and credit rating is addressed in the Financial Review on page 22. Reporting of performance against the group's financial obligations to bondholders and other financial creditors is disclosed in a quarterly Investor Report available on our website: www.dwrcymru.com

OUR BIGGEST RESPONSIBILITY IS TO PROVIDE A SAFE AND RELIABLE DRINKING WATER SUPPLY TO OUR CUSTOMERS AT ALL TIMES. THIS MEANS THAT OUR TAP WATER MUST BE FREE FROM HARMFUL CHEMICALS AND BACTERIA AND HAVE AN ACCEPTABLE TASTE.

Protecting public health

Drinking water quality

Customers rely on Welsh Water to deliver a high quality and consistent supply of wholesome drinking water, and our effectiveness is measured against standards set down and monitored by the Drinking Water Inspectorate (DWI).

Heavy rainfall in the summer and autumn of 2007 had a major impact on raw water quality, especially in north Wales, where we saw unprecedented levels of discolouration and dissolved organic content in raw water that did not subside until December. This presented a number of operational challenges. Bacteriological compliance at water treatment works and service reservoirs remained high, but fell below the best ever levels of performance achieved in 2006. Despite this, overall bacteriological compliance measured at customers' taps improved in 2007. Bacteriological compliance at water treatment works and at service reservoirs was 99.84% and 99.86% respectively (2006: 100% and 99.93%). ^[9]

The DWI's measure of overall water quality at customer taps is 'mean zonal compliance', which monitors compliance against 40 separate parameters. In 2007 Welsh Water's performance was down slightly at 99.93% (2006: 99.95%). However, performance against the Water Distribution Index, which takes into account performance against turbidity, iron and manganese - the principal parameters for discolouration problems and of customer complaint - improved to 99.84% (2006: 99.70%).

The standard for iron compliance at customers' taps is set at a level to ensure there should be no discolouration or metallic taste. In 2007 iron compliance improved to a best ever level of 99.55% (2006: 99.10%), and should further improve as we continue our programme of replacing unlined iron water mains. ^[10]

Reliability of supply

Customers have the right to expect a supply of tap water at all times. Accordingly, a key measure of Welsh Water's service is the number of instances where water supplies are cut off without warning because of a burst, third party damage or when we have over-run timescales on planned works. This year our position as industry leader over many years was affected by a single incident, as unplanned interruptions of more than six hours rose in 2007-08 to 3,848. This was entirely due to the flooding and loss of supply from our water treatment works at Whitbourne in Herefordshire in July 2007, which affected 3,425 customers. Save for this exceptional flooding incident, during which the River Teme rose to seven metres above normal levels, the number of customers off supply would have risen only marginally above a best-ever performance in 2006-07 of 313 and a five year trend which had seen numbers fall by over 70%. ^[11]

Water pressure is monitored in each water distribution zone as this allows us to identify possible problems and, as necessary, upgrade local water supply networks. Incidence of low pressure can change as new properties are connected to the water supply network and where we change the local distribution system. Last year we removed possible low-pressure problems for 1,845 properties, and, at the end of the year, there were 220 properties at risk of having low pressure (2006-07: 221). ^[12]

We monitor our performance and aim to reduce the frequency of interruptions arising from burst mains - both in real terms and relative to other companies in the sector. In 2007-08 Welsh Water experienced 161 bursts per 1,000km of water main (2006-07: 167 bursts). This performance reflects the age and condition of our water mains.

Managing water safety risk

A drinking water safety plan (DWSP) is a proactive, risk-based, framework whereby the safety of drinking water and public health is protected through a process of comprehensive risk assessment and management at all stages in the water supply chain (that is, from source to customers' taps). During 2007, Welsh Water has employed additional scientific resources and completed 93 DWSPs for the water supply catchments considered to be of highest risk. We will complete plans for all remaining catchments by October 2008 and meet the requirements of the Water Supply (Water Quality) Regulations 2007 (the 2007 Regulations).

NOVEMBER 2007

The Water Health Partnership for Wales enjoyed its first anniversary.

In October 2007 Welsh Water was prosecuted in respect of the outbreak of illness nearly two years earlier caused by cryptosporidium in the tap water supplied to parts of north Wales via the Cwellyn water treatment works. We, alongside the rest of the water industry, have learned important lessons from this incident and the 2007 Regulations, which were introduced post Cwellyn, have set new regulatory standards for the abstraction, treatment and testing of potable water. Applying the new DWSP methodology and the lessons learned from the Cwellyn incident, Welsh Water is developing plans for 18 water treatment works where some £100 million investment in additional stages of treatment will further mitigate water safety risk.

Quality Management Systems (QMS) are essential for the effective management and operation of our daily activities. They provide reassurance that risk is minimised, ensure that customer service is prioritised, that regulatory requirements are achieved and that everyone who delivers service to Welsh Water's customers operates to the same exacting standards. Our QMS, which are certified to the ISO 9001:2000 standard and subject to routine independent audit and review, cover potable water quality, sampling and laboratory services and customer service delivery.

Water for health

This initiative brings together relevant agencies to agree how to work together more effectively to protect public health, including the DWI, Welsh Assembly Government, local authority public and environmental health and emergency planning agencies, the Consumer Council for Water Wales and the National Public Health Agency Wales. Meetings held to date have proved successful in improving communications and understanding of each agency's responsibilities, and in promoting best practice to help benchmark and improve each organisation's performance.

A joint project with the Welsh Assembly Government has seen the installation of 725 water coolers in schools in Wales, more than double the original number, which is widely accepted as delivering educational and health benefits to children. Welsh Water has also distributed more than 85,000 water bottles to schoolchildren and young people in the last five years, and we are currently working with a Welsh manufacturer in an industry-wide trial to make chilled tap water available in public places in Wales.

The monitoring of water quality and customer service performance is led by the Quality and Environment Committee, which meets monthly and is chaired by Dame Deirdre Hine. This committee reports directly to each meeting of the Board. Further information about Welsh Water's water supply performance in 2007 can be found in the published report of the Quality and Environment Committee which is available on our website: www.dwrcymru.com.

WELSH WATER IS COMMITTED TO PROTECTING THE ENVIRONMENT WITHIN WHICH WE ALL LIVE - TAKING A HOLISTIC VIEW OF THE ENVIRONMENTAL IMPACT OF OUR BUSINESS. OUR PRINCIPAL RESPONSIBILITIES ARE TO ABSTRACT WATER FOR TREATMENT AND PUBLIC WATER SUPPLY AND TO COLLECT AND TREAT CUSTOMERS' WASTEWATER (ALONG WITH HIGHWAY AND SURFACE WATER THAT DRAINS INTO MANY PUBLIC SEWERS), IN A WAY THAT SAFEGUARDS THE ENVIRONMENT.

Safeguarding the environment

Water abstraction and leakage

Rainfall in 2007-08 was more extreme than usual and presented significant operational challenges. In April 2007 we saw only 1% of the normal long-term monthly average rainfall, which led to drought contingency preparations, but the weather then changed dramatically so that summer 2007 became the wettest on record. Despite this great variation in rainfall, we were able to maintain water supplies to customers without imposing restrictions.

Promoting water efficiency is essential to encourage our customers to use water wisely and avoid waste in the interests of the environment and all customers generally. Welsh Water contributes by keeping leakage from our water mains under control and dealing with reported leaks quickly. In April 2007 we launched a new water efficiency strategy - working with the Welsh Assembly Government and Environment Agency. Our 'Be Waterwise' campaign has continued throughout the year, giving practical advice to customers on water efficiency in the home and garden.

In 2007-08 we achieved the leakage target agreed with Ofwat by reducing leakage to 204 megalitres a day (Ml/d), ⁽¹²⁾ and we are on track to meet our March 2010 target of 195Ml/d, which is the current economic level of leakage (ELL). The ELL is the point at which it would cost more to reduce leakage further than to produce water from another source. Our level of leakage performance is generally in line with the rest of the industry, as measured by losses per km of water main.

Although we have a relatively strong water resource position overall, there are some areas where there is a fine balance between supply and demand, and where there could be supply or distribution problems during drought conditions. ⁽¹⁴⁾ Plans are in place to improve the security of supply, especially in parts of north Wales and parts of rural Herefordshire and mid Wales. These are described in Welsh Water's Water Resource Management Plan, which will be published for consultation during 2008.

Around 95% of the water that Welsh Water abstracts is taken from rivers and reservoirs, with 5% of water drawn from the ground through springs, wells and boreholes. As a result of cutting leakage and less demand from large industrial users, Welsh Water now abstracts around 25% less water for public water supply than 10 years ago, and around 3% of effective rainfall compared with over 50% in some parts of south east England. We await the outcome of the Environment Agency's review of licensed water abstractions under the EC Habitats Directive, which we believe needs to strike an appropriate balance between the needs of an essential public water supply and the objective of the Directive for a healthy aquatic ecosystem.

Preventing pollution

Investment in wastewater treatment works (WwTW) throughout the period since privatisation has led to a significant and substantial improvement in coastal and river water quality, with resulting environmental benefit, and support for the Welsh tourism industry and the Welsh economy.

In November 2007 an upgraded wastewater treatment works was opened at Cross Hands in Carmarthenshire. This £3 million fast tracked investment, which was jointly funded by Welsh Water, Carmarthenshire County Council and the Welsh European Funding Office, part of the Welsh Assembly Government, installed additional treatment and increased the capacity of the works by 75%. This was vital to allow the development of the Cross Hands Business and Agri-Food Park, which is part of Carmarthenshire's rural regeneration strategy, and to reduce risk of pollution of the local environment.

Welsh Water operates 850 WwTWs, proportionately more than many companies in the sector. Of these, only five small works failed to meet the required standard for wastewater discharges to coastal or inland watercourses during the year. ⁽¹⁵⁾ This means that 99.80% of our customers (2006-07: 99.97%) were served by works that met the required consent standard for effluent discharges.

NOVEMBER 2007

Jane Davidson AM, formally opens the Cross Hands wastewater treatment works following a £3 million investment.

Coastal bathing water quality: Despite unfavourable weather conditions early in the 2007 bathing season, which affected most parts of the UK, 78 of the 80 EU designated bathing beaches around the coast of Wales achieved the mandatory bathing water standard required by the Bathing Water Directive (2006:79). 69 of these also achieved the much higher 'guideline' standard (2006: 72). ^[16] Heavy rainfall can temporarily affect bathing water quality as the increased flow of water washes pollution through the sewer network, and increases run-off from farmland and urban streets, but bathing water quality usually returns to its normal condition after the rain subsides.

These results have secured 42 'Blue Flag' beach awards and 5 marina awards for the 2008 bathing season (2007: 49 awards in total) which, while slightly fewer than the year before, means that Wales has retained an industry leading position. ^[17]

River water quality: The last survey of river water quality published by the Environment Agency in 2005 confirmed that over 98% of rivers in Wales were good or fair on the assessment of chemical quality and over 99% were good or fair on the assessment for biological quality. The EC Habitats and Water Framework Directives, however, will impose higher river water quality standards and, working with our regulators, Welsh Water's challenge is to meet these rising standards in an environmentally sustainable way, where the cost of meeting new treatment standards do not outweigh the environmental benefits.

Sewer network: The average age of Welsh Water's 19,000km of sewer network is 60 years old, a third of it over 100 years; maintaining high standards of environmental performance in the sewer network is therefore a major challenge. The network also carries away surface water as well as wastewater from households and businesses, which means during heavy rainfall, some sewers cannot cope and as a result risk causing pollution and flooding at customers' properties.

Our investment to improve storm water overflows will reduce the amount of sewage and associated debris discharged to watercourses when, as a result of combined surface water and domestic wastewater, sewer capacity is exceeded during heavy rainfall. We have nearly 3,300 storm water overflows on Welsh Water's sewer network and by 2010 we will have improved around 460 unsatisfactory overflows under a prioritised programme agreed with the Environment Agency Wales. In 2007-08 we improved 89 storm overflows, bringing the AMP4 total to 244 during the first three years.

In 2007-08 there were 9 serious (category 1 and 2) pollution incidents, with none in the second half of the year. This is down from 17 in the previous year. However, the number of less serious category 3 incidents was higher at 260 (2006-07: 208). ^[18]

Improving the performance of our sewerage network is both a priority and a challenge for the business. Last year we announced the approval of a £5 million programme, primarily to install additional telemetry alarm devices at key points of the network, and by March 2008 400 additional devices had been installed. Subsequently, there was a reduction in the rate of category 3 incidents in the later part of the year. In two months there were 36 alarms, and on 34 occasions our staff were able to attend before there was any spillage to the environment. This demonstrates that investment is delivering a better understanding of the condition of the sewer network and will increasingly enable network operators to react quickly to potential problems before any sewer escape has any environmental impact, thereby reducing the number of minor pollution events.

Further information about Welsh Water's wastewater and sewerage performance in 2007-08 can be found in the published report of the Quality and Environment Committee of the Board which is available on our website: www.dwrcymru.com.

ON BEHALF OF OUR CUSTOMERS WE MANAGE A HUGE NETWORK OF ASSETS, MUCH OF WHICH IS COMING TO THE END OF ITS USEFUL LIFE. TO REDUCE THE RISK OF ASSET BREAKDOWN OR FAILURE, WHICH CAN RESULT IN POOR SERVICE TO OUR CUSTOMERS, WE INVEST HEAVILY EVERY YEAR TO MAINTAIN THE HIGH STANDARDS OF WATER QUALITY AND SERVICE THAT OUR CUSTOMERS EXPECT.

Looking after our assets

Investing in public health

During the financial year 2007-08 we invested £143 million to improve or maintain our water assets. We refurbished 440km of unlined water mains to improve water quality and iron compliance at customers' taps. Additionally, a further 79km of water mains that had been causing frequent supply interruptions were replaced and 1,192km of mains were cleaned for water quality improvement as part of maintenance programmes. Following detailed investigation, the length of water mains requiring refurbishment in AMP4 under the Section 19 DWI undertaking was reduced from 2,557km to 1,900km.

We completed a major £8 million scheme at Bretton water treatment works, near Chester, which was subject to a Drinking Water Inspectorate undertaking to improve the quality of water produced at the works. This marked the completion of the fourth of eight major water treatment schemes programmed for the current investment period, 2005-2010. Major maintenance schemes were also completed at 88 water treatment works, 27 service reservoirs and at 21 water pumping stations.

Investment in public health ⁽¹⁹⁾

Type of work	2007-08 £m
Water improvements	13.2
Water mains refurbishment	51.5
Meter installation	5.4
Leakage	4.0
New development	6.8
Maintenance	36.6
Other	25.1
Total	142.6

Preventing pollution ⁽²⁰⁾

Type of work	2007-08 £m
Wastewater improvements	19.9
Combined sewer overflows	46.1
First time sewerage provision	4.5
Sewer flooding prevention	11.9
Sewerage maintenance	19.2
Wastewater asset maintenance	23.6
Sludge treatment	6.4
New development	5.1
Other	21.7
Total	158.4

Preventing pollution

Investment throughout the period since privatisation has led to a substantial improvement in coastal water and river water quality. Our role in helping maintain high quality coastal water is especially important for the Welsh tourism industry and the Welsh economy.

During 2007-08 we invested £158 million to improve or maintain our wastewater assets. We completed quality improvements at three treatment works and at 89 intermittent wastewater discharges. In addition, we have completed three Section 101a 'first time' sewerage schemes.

Our strong focus on reducing sewer flooding has seen investment that has reduced flooding risk for 331 properties, which puts us ahead of the target agreed with Ofwat. Substantial maintenance schemes have been completed at two sewerage pumping stations and at 15 wastewater treatment works. We have also refurbished 33km of sewers and laid 24km of new sewers. In addition CCTV inspection of 300km of sewer has provided significant information on the condition of our sewers, leading to improved targeting of investment in planned capital investment schemes.

DECEMBER 2007

Residents in the Sketty area of Swansea benefit from £1.3 million investment scheme to upgrade the water mains across the area.

In 2007-08, work was also completed at ten sites to address odour problems. This completes work at 21 of the 33 sites prioritised with regulators at the start of the AMP4 period.

Strategic investment planning system

2007-08 was the third year of our £85 million five-year programme of IT Enabled Change (ITEC), which through improved IT systems and streamlined business processes will help deliver service improvements across the business. A key output delivered this year was a new strategic investment planning system (SIPS), which will help us take more informed asset planning decisions, and tailor capital maintenance and investment expenditure to get the best possible value for money for our customers. SIPS is accredited to the best practice standard for asset management (PAS-55), which gives us confidence that our approach is both systematic and managed to an internationally defined standard.

Adoption of private sewers

Looking forward, the planned transfer of responsibility for private sewers and drains to statutory undertakers will significantly increase Welsh Water's network of infrastructure assets. It will add some 16,500km of sewers to our existing network of 19,000km. The age and condition of these currently private assets is, as yet, largely unknown, and Welsh Water will need time to assess and deliver any investment necessary to improve and maintain them to regulatory standards. It remains important, therefore, that whilst Welsh Water supports the environmental benefits that the adoption of private sewers will bring, that these assets are transferred in a way that does not increase customers' bills disproportionately.

WELSH WATER PROVIDES SERVICES THAT ARE ESSENTIAL TO CUSTOMERS, PUBLIC HEALTH AND THE QUALITY OF THE ENVIRONMENT. WHILE RESEARCH SHOWS THAT LEVELS OF CUSTOMER SERVICE AND SATISFACTION ARE GENERALLY HIGH, WE NEED TO DO EVEN BETTER SO THAT CUSTOMERS CAN ALWAYS HAVE COMPLETE CONFIDENCE IN OUR SERVICES.

Meeting customer's expectations

Customers have the right to expect three things from Welsh Water:

- » that we provide a reliable and safe drinking water supply delivered at the right pressure every time they turn on the tap
- » that we treat and dispose of customers' wastewater without damage to the environment or interference in their daily lives, and
- » a high level of customer service, where we get things right first time, every time, and deal with customers in a prompt, courteous and professional manner.

We have reported on our performance on water supply and protecting the environment earlier in this Business Review.

Customer opinion

How customers regard the service they receive from Welsh Water is a key measure of the success of the business. The Board therefore routinely reviews independent market research to track customer views on a range of issues. This includes customer satisfaction with the service they receive, but also satisfaction with drinking water quality, river and coastal environmental quality and how customers perceive Welsh Water's overall service in terms of value for money compared to other utilities. ^[21] The latest biannual research shows overall satisfaction levels of over 80% and that customer confidence in drinking water quality remains at a high level.

Each year, independent surveys also monitor the views of customers who have contacted us, and this shows that around 70% are very or fairly satisfied with level of service they receive. From independent 'mystery shopper' research, we know that the quality of telephone contact service provided by Welsh Water's trained agents consistently beat industry benchmarks with satisfaction ratings in excess of 90%.

We share all customer research with the Consumer Council for Water (Wales) with whom we work to continuously improve customer services. In the past year we have improved our guaranteed standard of customer service, revised procedures for handling metered consumption disputes and improved arrangements for customers whose charges are collected by local authorities and housing associations.

Improving customer service is a top priority and as part of our programme of IT enabled change we are currently investing over £20 million in enhanced customer contact and work management systems. This will allow Welsh Water to further streamline customer processes and will deliver significant further improvement in the levels of customer service we can provide.

Sewer flooding

No customer should have to experience the distress caused by sewer flooding and reducing the risk remains a top priority for Welsh Water. In 2007-08 we continued to invest in the maintenance and renewal of our sewer network, with a focus on areas identified by an assessment of historical incident data as being at greatest risk of sewer flooding in severe weather. However, each year changing weather patterns contribute to incidents occurring where sewer flooding has not been experienced before.

In 2007-08, 267 properties experienced internal flooding from sewage (2006-07: 335). Of these, 100 properties were flooded as a result of hydraulic overload of sewers following heavy rainfall, and 167 properties were flooded by other causes including blockages and sewer collapses (2006-07: 132 and 203 properties respectively). ^[22] At the year-end 365 properties remained on the 'at risk register', a slight improvement on last year (2006-07: 432). ^[23] This improvement, given the unusually high rainfall we saw in the summer and autumn of 2007, gives us confidence that our investment in improving the sewer network is delivering positive results.

Customer contact

Last year, trained agents in our customer billing and operational call centres in Cardiff dealt with 1.3 million calls from our customers, proportionately more than most other companies, of which 0.92m were in relation to billing queries.

JULY 2007

£1.3 million scheme started to alleviate flooding in Treorchy.

We know that customers prefer not to have to deal with automated telephone response systems, so in nearly all instances their calls are answered promptly by a member of staff. In Ofwat's latest reported assessment of call handling customer satisfaction, Welsh Water was rated 4.61 out of a possible score of 5 (2006-07: 4.57).

We have made a significant commitment to staff training and have issued new guidance for staff on handling measured account queries, which has improved the effectiveness of our customer call handling. ²⁴ ²⁵ Although the number of complaints we received in 2007-08 rose slightly to 10,628 (2006-07: 10,586), the number of these that required escalation for review by a Director of Welsh Water fell by 12%, continuing the reducing trend of the last three years over. Each year around 70% of the complaints reported to Ofwat relate not to a service failure by Welsh Water, but to disputed bills or our charging policy and debt collection activity.

We treat Welsh and English languages equally to meet the needs of our customers. All of our publications are bilingual and we operate a dedicated Welsh language telephone line for those customers who prefer to speak to us in Welsh. Customers are made aware of this through 'Mae gen ti ddewis' (You have a choice), a scheme supported by the Welsh Language Board and the Welsh Assembly Government.

Keeping customers informed

If work on planned maintenance or an investment scheme means water supplies will unavoidably be interrupted, or if access to a customer's premises will be required, then information is provided to those customers directly affected and a 24-hour contact telephone number is provided to provide information. Customers can also request home visits to discuss how the planned works will impact on them, and for major schemes we also keep the relevant local authorities, community councils and Assembly Members fully informed.

Sewer flooding causes great distress to customers. Our 'Floodcare' scheme has led to improved communication with customers and helped our response and clean up activities to become more efficient. Under this scheme customers are given a firm commitment to the immediate support we will provide and informed of our longer-term investment plans to reduce the risk of a recurrence. We also continue to work closely with other authorities that have responsibilities for drainage to develop joint solutions in order to prevent repeat flooding problems.

Additional services

We know that some customers, including the elderly and disabled, may have additional needs. We therefore offer a range of additional services, including:

- » large print or Braille bills
- » bottled water during emergencies
- » a password scheme for home visits

- » a 'knock and wait' service for customers who need a little more time to answer the door to caller, and
- » a 'redirection of callers' scheme.

Around 3,250 customers were registered to receive one or more of these additional services during 2007-08, an increase on the previous year, due to our targeted campaigns to make sure that customers are aware of what we can offer.

Helping customers experiencing financial hardship

By the end of 2007-08, 1,860 customers had benefited from participation in our Customer Assistance Fund. This scheme is run with help from the Citizens' Advice Bureau and is designed to help customers who have fallen into arrears with their bills, so that they are better able to pay charges on a regular basis. We also received 1,068 applications in the first year of our lower-cost 'Water Sure' tariff, 84% of which were successful in demonstrating that they had a higher than normal water usage due to family or personal circumstances.

This year (2008-09) we are also trialling a new tariff - 'Waterdirect' - which gives an additional £25 discount for any customer who chooses to have their water bill paid direct from their benefits. For some of our least well off customers this discount, when added to the customer dividend, would reduce their water bill by more than 10%.

WELSH WATER IS DRIVEN BY A STRONG BELIEF IN ENVIRONMENTAL RESPONSIBILITY AND IN BEING A GOOD NEIGHBOUR AND TRUSTED PARTNER IN THE COMMUNITY. IN SUMMER 2007 OUR COMMITMENT WAS RECOGNISED WHEN THE COMPANY WAS NAMED BUSINESS IN THE COMMUNITY WALES COMPANY OF THE YEAR: AN AWARD MADE TO COMPANIES THAT DEMONSTRATE AN INTEGRATED APPROACH TO RESPONSIBLE BUSINESS PRACTICE IN THE MARKET PLACE, WORKPLACE, ENVIRONMENT AND COMMUNITY.

Responsible business

The provision of efficient and high quality drinking water and wastewater services means that Welsh Water both relies on and contributes to the quality of the environment in our area. We therefore seek to operate in a sustainable way that minimises or, where an impact is unavoidable, mitigates any adverse environmental or other effects of our business activities. Our work programmes are designed where possible to achieve positive benefits for conservation and the wider community.

Conservation and heritage

Welsh Water is the guardian of some of the most scenic landscapes in Wales, which are rich in biodiversity and heritage. To protect these national assets we ensure that when working on our network of assets our design teams consult with appropriate conservation and heritage bodies at the earliest stage of planning. Last year trial holes were dug in farmland near Ledbury, in Herefordshire, for ground investigation before commencing a water mains replacement scheme. This led to discoveries resulting in a three-month archaeological excavation of a previously unknown Roman cemetery, including the skeleton of a mature male inside an oak coffin which is believed to be one of the best-preserved examples ever found in Britain. Findings from this excavation were presented to the local community.

Conservation best practice is encouraged across the business. Each of our major reservoir landholdings has a site-specific habitat and species plan, and we encourage simple but effective measures, such as good grassland management, at our operational works. 2007-08 also saw the completion of a review of 20 principal reservoir sites and major landholdings, to assess the right balance between protecting conservation and heritage value and encouraging visitor and recreational use. This 'green corridor' study identified a number of opportunities to improve biodiversity and habitats, which also contribute to our climate change mitigation strategy. Furthermore, it will enable us to develop improved public access to Welsh Water's land.

Conservation initiatives during 2007-08 included working with the North East Wales Wildlife Trust on an otter project at Llyn Brenig reservoir, the planting of around 12,500 indigenous broadleaf trees, and many surveys – including of wetland birds in the Cwm Taf Reservoirs, of bats and scarce plants in the Elan Valley, and of otters and voles at Llyn Gynon. The benefit of earlier conservation initiatives is demonstrated by sightings of national priority species at a number of our sites.

Access and recreation

We encourage public access at seventeen major reservoir sites where we provide sporting, recreational and leisure resources. The most popular of these sites together attracts almost a million people each year, making a valuable contribution to tourism and the local economy. ⁽²⁸⁾

At Llandegfedd Reservoir, near Pontypool, we are supporting the development of a water sports centre by a collaboration of user groups who have formed a charitable company for this purpose. Construction of the new centre, which was given planning consent in November 2007, is scheduled to begin during winter 2008. In October 2007 the trial of a water-activity day, promoted jointly with the Countryside Council for Wales and Pembrokeshire Coast National Park, introduced nearly 200 people to activities available at Llysyfran Reservoir, near Haverfordwest. We have also recently launched a series of 'water walks', designed to promote an awareness of the leisure facilities at our sites for local people and tourists.

Environmental education

"A key element of Welsh Water's environment strategy is to win over the hearts and minds of young people. Cilfynydd Environmental Education Centre is a shining example of this strategy over the past ten years. The purpose-built centre accommodates more than 4,000 pupils a year. Its success has led to investment in a further three centres, making Welsh Water one of the leading employers in Wales in supporting environmental education in schools."
Keith Gillard, Chief Executive of the Mid Glamorgan Education Business Partnership and Member of Glas Cymru (May 2007).

JULY 2007

'In July 2007 our Living and Learning with Water environmental education centres at Cilfynydd and Cog Moors achieved Green Flag Eco-Centre status.'



Welsh Water operates four environmental education centres. In 2007 the company's ten-year track record in providing support to schools led to a Silver Jubilee Big Tick Award from Business In the Community. In the last academic year 14,225 children attended one of these centres and received free curriculum-based lessons that are designed and led by seconded teachers. [27] Since our first centre opened in 1997, nearly 90,000 children have benefited from lessons that teach the importance of diverse habitats and nature conservation - promoting a better understanding of the importance of water in our everyday lives, as well as communicating key business messages for Welsh Water on water conservation and public safety. Opened in 2004, our education centre at Alwen welcomed its 10,000th pupil visitor in April 2007.

We continue to work closely with our education partners. These are organisations that have a similar approach to providing support for education and include the National Botanic Garden of Wales in Carmarthen, Techniquet in Cardiff, the Hereford Waterworks Museum, The Wildfowl and Wetlands Trust at its National Wetlands Centre near Llanelli and the Elan Valley Trust. We are pleased that Keep Wales Tidy, whom we have worked with for many years in support of its Eco-Schools programme in Wales, recently became Welsh Water's sixth education partner.

In 2007 we made a major addition to our education portfolio when we introduced a peripatetic teacher role to the team, to make our education service more accessible to schools located too far away for a day visit to one of our centres. Our peripatetic teacher, who is a recent national primary school Science Teacher of the Year, delivers education programmes at our education partner sites and also visits schools and organised community groups. In the first six months of this new role nearly 2,000 additional children benefited from the service.

Water efficiency and public safety

Last year Welsh Water staff attended many events to promote the key messages of water efficiency and public safety. These included an event at Cardiff Castle, sponsored by the Welsh Assembly Government that focused on construction site and reservoir safety. We also provided water efficiency information stands at events hosted by Companies House in Cardiff and at the Royal Welsh Show. Through the Keep Wales Tidy Eco-Schools programme, Welsh Water issued over 600 water efficiency packs to schools.

We work closely with various local community organisations. For several years we have co-operated with local police forces and caring organisations to help combat 'distraction burglaries', in which people are tricked into letting thieves into their homes. In areas where 'Beat the Burglar' partnerships are established, the number of distraction burglaries continues to fall.

Charity and community projects

Welsh Water does not engage in corporate sponsorship, preferring instead to promote a community investment scheme for staff who wish to become involved in charitable and other projects. Many of our staff, and those of our contract partners, benefit their communities in this way. Some 15% of Welsh Water staff support local schools and participate in a 'World of Work' scheme coordinated by the Mid Glamorgan Education Business Partnership, which provides business mentoring and interview support for 15-16 year olds, or other similar schemes.

Welsh Water supports WaterAid, the international charity dedicated to extending access to safe domestic water and sanitation, and hygiene education for some of the world's poorest communities. Last year, Welsh Water sponsored a member of staff to go on a second annual visit to see first hand how donations from Wales were benefiting communities in Africa. Funds raised by Welsh Water staff and customers since 2005 put us on track to meet our goal of raising £1 million for WaterAid.

AS LAST SUMMER'S FLOODS AND THE PREVIOUS YEAR'S DROUGHT SHOWED, THE WATER INDUSTRY IS ESPECIALLY VULNERABLE WHEN IT COMES TO RESPONDING TO THE INCREASINGLY ERRATIC WEATHER PATTERNS ASSOCIATED WITH CLIMATE CHANGE.

Responding to climate change

The longer-term environmental impact of climate change is generally described as a greater variability in climate, meaning wetter winters and drier summers; yet recent experience has showed that unusually dry winters and intense and lengthy spells of summer rain can provide equally significant operational challenges for Welsh Water in managing water resources and water quality, as well as our sewer network and storm drainage.

Since 2001 the level of greenhouse gas emissions generated by the business has grown by some 30%, largely due to the opening of new wastewater treatment works, and every year there is upward pressure on emissions arising from investment in new assets and treatment processes to meet higher water quality and environmental standards. In 2007-08 Welsh Water adopted the UKWIR carbon accounting methodology (2007) now used by all water companies.

In November 2007, in our strategic direction statement - 'Welsh Water: Our Sustainable Future' - we committed to reducing carbon emissions by 25% by 2015 and by at least 50% by 2035. These are very demanding targets. In 2007-08, total emissions from Welsh Water's water and wastewater operations were 255,849 tonnes of CO₂ equivalent, which for the first time was less than the previous year, which is also the baseline year for future emission targets (2006-07: 282,405 tonnes). ^[28] This has largely been achieved by a combination of improved energy management and investment to increase our renewable energy capacity.

Preparing for climate change

For the last four years we have worked in partnership with the Carbon Trust in Wales to ensure that we have a good understanding of our carbon footprint and to identify and progress sustainable opportunities to reduce our emissions. We have also advanced our understanding of two of the more significant future challenges posed by climate change: the risk of sewer flooding during heavy rainfall and the resulting impact on our customers and the environment; and the need to protect key assets that are vulnerable to extreme flooding from rivers, surface water or rising sea levels. The business tool developed with the Carbon Trust to calculate the net carbon cost of alternative capital investment solutions is now being used for investment planning purposes for the AMP5 (2010 - 2015) investment period.

Mitigating the impacts of climate change

As 60% of the carbon footprint of Welsh Water's business operations is related to energy consumption (with 35% associated with treatment process emissions and 5% to transport), our mitigation activity to date has focused on local schemes to increase renewable energy capacity, to improve energy efficiency and to reduce the energy demands of our treatment processes. ^[29]

Increasingly, storm water discharging from roads, roofs and concrete surfaces is entering the sewerage network, which can overload the system and cause acute flooding problems.

The cost of pumping this excess water is expensive in terms of energy consumption and it increases our carbon footprint significantly. Pilot studies to investigate sustainable solutions to reducing surface water discharges are being conducted at Llanelli, Pwllheli, Coedpoeth and in the Llynfi Valley, and these are now informing our investment decisions and priorities for the AMP5 period (2010-2015).

During the year the Quality and Environment Committee of the Board visited Whitbourne WTW to see firsthand the impact of major flooding. This was a key part of the committee's review of Welsh Water's response to the incident and subsequent action at other locations to mitigate the risk to water quality and customer service that could arise from the flooding of critical assets.

We also continue to investigate greater use of low carbon technologies, such as using reed beds at Crynant wastewater treatment works. We are investing in expanded use of sludge digestion at key wastewater treatment works, starting at Eign in Hereford, where methane gas will be used to generate on-site power. Last year we announced our first carbon neutral water treatment works, near Harlech, using small-scale hydropower, and we are looking for similar opportunities to reduce our carbon footprint, including the potential for on-site wind generation schemes at our major sites and landholdings.

NOVEMBER 2008

Welsh Water publishes its vision for the company 25 years in the future.

Energy management

Welsh Water is one of the top ten energy users in Wales, so promoting energy efficiency and awareness is important for our business and, by reducing Welsh Water's carbon footprint, for the environment. In 2007-08 total energy consumption was lower than 2006-07, which is a good outcome given the unusually high levels of storm water being pumped in the sewerage network last year. ^[30]

Across the business opportunities for greater energy efficiency are being identified from investment in sub-meter monitoring of targeted high-energy use works and treatment processes. A continuing programme of testing pump efficiency against factory specification has led to the replacement of pumps and consequent energy savings of up to 20%. This is significant as pumping accounts for 80% of energy use in the water business and 70% in the wastewater business. Similar tests of aeration plant efficiency have also been undertaken in the wastewater business.

Increasing the capacity to generate renewable energy from Welsh Water's business processes is important for climate change mitigation and we continue to invest in combined heat and power (CHP) schemes, which capture and burn 'waste' methane gas. In 2007-08, we commissioned three new CHP units at wastewater treatment sites at Eign, Aberystwyth and Gowerton, and units at Penybont were refurbished to significantly increase generation capacity.

This investment led to a 21% increase in renewable energy capacity at our sites last year and a more than doubling of capacity over three years. ^[31]

Improved energy efficiency and increased energy generation, in combination with operating conditions in 2007-08, meant that total carbon emissions fell last year for the first time.

Environmental procurement

All of Welsh Water's chosen contract partners can demonstrate a track record in environmental awareness, responsibility and best practice in their daily operations and in the supply chain, such as procuring energy and water efficient plant and machinery. In 2007 we established a Construction Waste and Aggregates Steering Group recognising that, in a typical year, delivery of Welsh Water's capital investment programme uses around 120,000 tonnes of virgin aggregate and needs to dispose of around 85,000 tonnes of construction related waste.

In parts of our business we can show excellent practice: close to 95% of the water mains replaced or refurbished by Laing O'Rourke is delivered using trenchless technology; and use of recycled waste and secondary aggregate in larger construction projects is well established. To widen this good practice, and avoid unnecessary deposit of waste to landfill, Welsh Water and its construction partners have signed up to the government sponsored WRAP Utility Industry Agreement.

WE WANT ALL OUR STAFF TO BE PROUD TO WORK FOR WELSH WATER BECAUSE OF THE QUALITY OF SERVICE THE COMPANY PROVIDES, THE CAREER OPPORTUNITIES WE OFFER AND THE SAFE ENVIRONMENT IN WHICH WE WORK. HAVING A SKILLED AND HIGHLY COMMITTED STAFF IS CRUCIAL TO ACHIEVING OUR GOAL OF BEING RECOGNISED BY CUSTOMERS AS THE BEST WATER COMPANY IN THE UK.

Employer of choice

Outsourcing to expert partners

Welsh Water's 'Asset Management Alliance' (AMA) is a partnership between Welsh Water and 13 contract service providers. Our partners were selected to bring experience of 'best practice' from some of the UK's leading utility, construction and infrastructure companies, and all share Welsh Water's commitment to progressive employee relations. Together we employ over 3,000 people to look after the water industry in Welsh Water's area and to deliver efficient and high quality services to over three million people.

The AMA aims to set new standards in partnership working and operates on the basis of openness and transparency. In 2007-08, the Principals' Group, comprising the business heads of each of our partners, introduced an employee awards scheme that culminated in the first annual AMA awards ceremony. They also worked together to recruit a company to help AMA partners optimise the way in which the partnering model works, by better aligning operational teams to business objectives and working with them to eliminate obstacles to achieving Welsh Water's vision. Outcomes from this initiative include the introduction of 'Meet the Principals' sessions and 'MD Road Shows', so that staff across the AMA can meet business leaders and hear first hand about our business priorities, and we have also carried out the first AMA wide staff survey.

A specialist in occupational profiling and organisational design has also been engaged to help management teams in the AMA to work together more efficiently.

Developing our people

We are committed to training and developing our people and each of Welsh Water's staff has an annual Personal Development Plan (PDP), which translates company goals into personal objectives - against which individual performance and training needs can be evaluated. In this way, a 'thread' is established through the business, with the company business plan disseminated into individual and team objectives. To support the development of the PDP process, we have introduced a risk-based model for succession planning and succession plans have been put in place for all key roles in Welsh Water.

Keeping staff informed on company performance and business issues is important to maintaining a committed workforce. We do this through monthly local team meetings, an annual staff forum to which all Welsh Water staff are invited, a quarterly magazine, and via Infozone, the re-launched staff intranet which is now widely available to AMA staff. The managing director also routinely meets staff in small groups, when they may discuss issues of their choice.

The views of our staff on important issues are independently tested through an annual staff satisfaction survey. The latest survey (January 2008) shows a continuing high general level of satisfaction. The full results of the survey are shared with all staff, together with the resulting action plan that is jointly developed by management and employees. ³² ³³

Employee pay and benefits in Welsh Water generally compare favourably with the local employment market and the UK Industrial and Services market benchmarks. All staff can share in the success of the business via an annual bonus scheme linked to Welsh Water's ranking in Ofwat's annual Overall Performance Assessment league table and financial performance. In April 2008 staff received a general pay award of 3.87%.

JUNE 2007

Welsh Water receives two prestigious awards from Business in the community.

Occupational health and safety

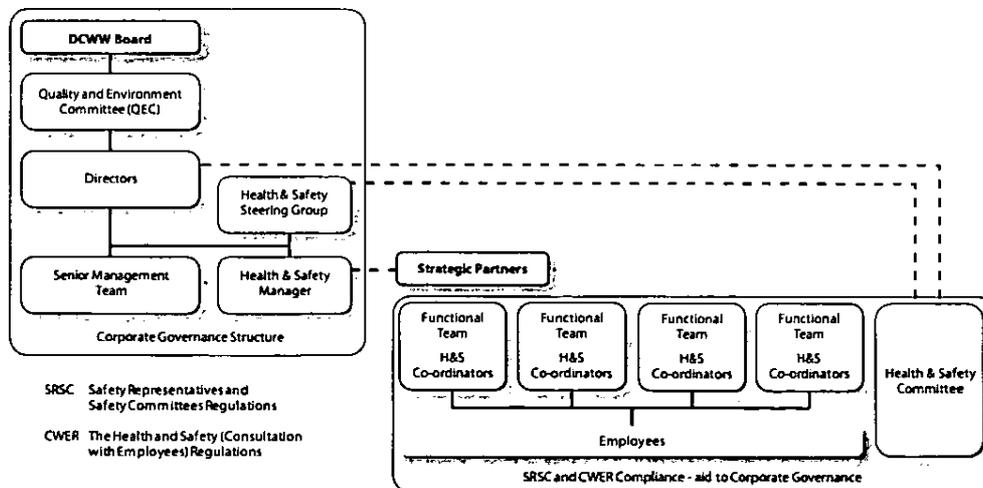
The health, safety and welfare of our employees and all those who work with us is of the utmost importance. We operate a vigorous health and safety management system that applies to all our AMA partners and their first tier suppliers, and under this partners implemented 163 risk-based improvement plans, of which 98% were completed during the year. We also continued to promote health and safety best practice and shared learning through our AMA steering group and a process of 'cross partner' audits, which we also verify through independent external audit.

As a result of this continuous focus on improving H&S performance, in 2007-08 the number of reportable accidents across the AMA reduced by 17%, which follows reductions in each of the last two years and maintains our long-term improving trend. In March 2008 Welsh Water achieved accreditation to the OHSAS-18001 standard for our health and safety management system, and during the year every manager with contract management responsibilities received training to the NEBOSH or NEBOSH Construction standard. Also in March 2008, we held our second AMA occupational health and safety conference, with the theme 'Journey to Zero' (referring to our goal of no reportable accidents), which was attended by 240 staff from across the AMA.

During the conference, H&S Excellence Awards were presented to our partners, and also to teams and individuals for best innovative idea and outstanding contribution to H&S. Challenging presentations were also made by external experts (including the HSE Chief Inspector for Wales), on themes such as changing H&S law and regulations, and the importance of promoting behavioural staff awareness and the role of leadership in delivering improved H&S performance.

Further details of our health and safety performance and approach are available in our 2008 Health and Safety Report which is available on request or via our website: www.dwrcymru.com.

Corporate governance for health & safety management



GLAS CYMRU'S FINANCIAL STRATEGY IS TO OFFER A SECURE, LOW RISK INVESTMENT TO LONG-TERM INVESTORS. BY STRENGTHENING OUR FINANCIAL POSITION, WE INTEND TO KEEP OUR FUTURE BORROWING COSTS LOW, ENABLING US TO FINANCE FUTURE INVESTMENT IN THE BUSINESS EFFICIENTLY, WHILST HAVING THE SCOPE TO RETURN MONEY TO OUR CUSTOMERS THROUGH A PROGRESSIVE 'CUSTOMER DIVIDEND' POLICY.

Financial review

Financial results

The only trading activities of the Glas Cymru Group are carried out by its principal subsidiary, Welsh Water. The report and accounts of Welsh Water (Dŵr Cymru Cyfyngedig) for the year to 31 March 2008 are published separately.

Glas Cymru's turnover in the year to 31 March 2008 was £623 million (2007: £578 million) – an increase of 7.8%. The increase primarily reflects the price increase of 7.7% in the year, with additional revenue from new customers being offset by a loss of revenue due to customers switching to metered charging and a reduction of some 2% in consumption from metered water customers. The effect of 'customer dividends' in the year was that turnover was some £26 million (2007: £25 million) below the level that would have resulted from the full price control allowed by Ofwat. The rate of voluntary customer switching to metered charging in the year slowed somewhat to around 17,500 customers (2007: 22,000 customers), whilst some 10,000 new customers (2007: 9,000 customers) were added during the year, who are all metered.

Net interest charges for the year were £159 million (2007: £152 million), including an indexation charge for index-linked bonds and swaps of some £30 million (2007: £23 million). Despite higher inflation and interest rates during the period, the average cost of net debt during the period was only marginally higher at 6.3% (2007: 6.2%), reflecting the benefit of refinancing undertaken during the previous year. In addition, a charge of £48 million is made to the income statement for the movement in the fair value of financial instruments (2007: £46 million credit).

Profit before tax was £14 million, excluding these fair value movements on finance instruments (2007: £2 million). This profit was made after funding the 'customer dividend' of £20 for customers receiving both water and wastewater services. The Board of Glas Cymru has decided to increase the 'customer dividend' for 2008-09 to £21 and intends to continue with a progressive 'customer dividend' policy, at least until 2010. The remaining profit will be retained in the business to support future investment in improved outcomes for customers.

There was a deferred tax credit for the period of £38 million (2007: £14 million charge), primarily reflecting the reduction in the future rate of corporation tax to 28% (2007: 30%).

Continued focus on cost control

Glas Cymru's operating costs (excluding infrastructure renewals expenditure and depreciation) were £231 million (2007: £229 million), which represents a reduction in real terms of some 3%.⁽²⁴⁾ There was a temporary decrease in energy costs during the course of the year to £29 million (2007: £34 million), although they remained some £12 million higher than the level in 2005.

Around 70% of operating costs were incurred under outsourced service contracts, including the contract with United Utilities Operating Services (UUOS) for the operation of the water network and the wastewater network in North Wales and with Kelda Water Services, for the operation of the wastewater network in South Wales and Herefordshire. These contracts operate on a target cost basis which are designed to incentivise further improvements in operating efficiency in the period up to March 2010.

Customer debt recovery remains subject to very close attention by Welsh Water and by Veolia Water, the billing and income services contract partner. A difficult environment - water companies are not allowed to disconnect supplies to domestic customers due to non-payment – resulted in a slight deterioration in cash collection performance, albeit it remained close to target. The bad debt charge for the year of £13 million (2007: £11 million) represents around 2% of annual turnover.

MARCH 2008

Customers benefit from improved performance as Welsh Water once again pays an annual 'customer dividend'.

Capital expenditure by Welsh Water during the year (before capital grants and developer contributions and including infrastructure renewals expenditure) was £301 million (2007: £269 million), bringing the total expenditure over the first three years of the five-year AMP4 period to £807 million or some 57% of the total AMP4 programme. Welsh Water works with an alliance of capital investment partners (Laing Utilities, Morrison, Morgan Est, Costain, Imtech Process, and Black and Veatch) with the aim of delivering the AMP4 investment programme at the best value for money for customers. During the year, capital investment was above £300 million for the first time ever for Welsh Water. Building on this considerable achievement, Welsh Water is planning to invest more than a further £600 million over the next two years. At this stage, it is expected that investment expenditure over the AMP4 period as a whole of some £1.4 billion will be broadly in line with the allowance made by Ofwat in the Final Determination.

Financing activities ⁽³⁵⁾ ⁽³⁶⁾

Glas Cymru has taken advantage of the favourable rates of interests available prior to the current difficulties in the capital markets substantially to pre-fund its capital requirements for the period to 31 March 2010, the end of the current five-year investment and price control period.

A key measure of financial performance for Glas Cymru is the level of gearing – the ratio of net debt to Regulatory Capital Value (RCV). By reducing the level of gearing from around 93% on the acquisition of Welsh Water in May 2001 to 72% as at 31 March 2008 (2007: 74%), the financial position of the Group has been significantly enhanced. 'Financial reserves' (RCV less net debt) now stand at £998 million (2007: £876 million). ⁽³⁷⁾

As at 31 March	2008 £m	2007 £m
Regulatory Capital Value	3,529	3,310
Net Debt	2,531	2,434
'Reserves' (RCV less net debt)	998	876
Gearing (net debt/RCV)		
Senior debt	68%	69%
Senior debt + class C bonds	72%	73%
Total debt	72%	74%

Net debt (throughout as defined for covenant purposes in the Common Terms Agreement for the bond programme) increased during the year by £97 million to £2,531 million, including the indexation charge of £30 million (2007: £23 million). The additional finance raised was used to fund part of the capital investment programme in the year and to pre-fund future capital investment requirements.

On 5 October 2007, Welsh Water entered into an £85 million finance lease of refurbished water mains with a leasing subsidiary of The Royal Bank of Scotland.

Cash on deposit or invested as at 31 March 2008 amounted to some £124 million which, together with undrawn bank facilities of £345 million, gave the Group a high degree of liquidity.

Credit rating

Credit ratings improved further during the year, which is an indication of the improving financial position of the Group. On 18 December 2007, Standard and Poor's raised the rating of the Group's class B bonds from A- to A, and the rating of the class C bonds from BBB to BBB+. In addition, Moody's have assigned a corporate family rating to Dŵr Cymru of A3. ⁽³⁸⁾ ⁽³⁹⁾

However, the Group has not been completely immune to the recent problems in the capital markets. On 7 April 2008, Fitch Ratings announced that it was downgrading the rating of MBIA Assurance SA and MBIA UK Insurance Limited from AAA to AA. In consequence, Fitch downgraded Dŵr Cymru (Financing) Limited's class A bonds, which have the benefit of an MBIA guarantee. Similarly, on 5 June 2008, Standard and Poor's also downgraded MBIA and the Dŵr Cymru (Financing) Limited's class A bonds to AA.

Key characteristics of the Bonds currently in issue

Bond class	Nominal (on issue) £m	Interest rate (on issue)	Interest basis	Expected maturity	Legal maturity
A1	350	6.015%	Fixed rate	31 March 2028	31 March 2028
A4	265	3.514%	Index-linked	31 March 2030	31 March 2030
A5	85	3.512%	Index-linked	31 March 2031	31 March 2031
A6*	100	4.473%	Fixed rate	31 March 2057	31 March 2057
B1	325	6.907%	Fixed rate	31 March 2021	31 March 2021
B3	129	4.377%	Index-linked	31 March 2026	31 March 2026
B4	75	4.375%	Index-linked	31 March 2027	31 March 2027
B5	50	1.375%	Index-linked	31 March 2057	31 March 2057
C1	125	8.174%	Fixed rate	31 March 2011	31 March 2036

Bonds issued by Dŵr Cymru (Financing) Limited.

For full details of bonds refer to Prospectus dated 4 December 2006, available on our website www.dwrcymru.com

**Swapped to an effective index-linked rate of 1.35%.*

Future financial strategy

The objective of the Board will be to continue to improve the financial performance of the company during the period to 31 March 2010. The Board intends to reduce gearing (the ratio of net debt to RCV) to around 70% and to keep it at that level going forward. The Board believes this can be achieved whilst maintaining the current progressive 'customer dividend' policy.

The Board believes that its financial strategy will put the company in a strong position to raise the funding for the following five-year investment programme in the period to 2015 on efficient terms, which is an important part of the company's strategy to keep down customers' bills in the long-term.

To protect the Group's high credit quality, the Board has implemented prudent financial policies, covering the fixing of interest rates and currency exposures, and the investment of cash balances. Glas Cymru has minimised its exposure to movements in market rates, with a minimum of 85% of its liabilities being fixed rate, index linked (to UK RPI) or matched by cash balances. The Board considers that liabilities index linked to UK RPI inflation are particularly appropriate for the business, as its revenues and RCV are also linked to RPI through the regulatory system operated by Ofwat. As at 31 March 2008, approximately 56% of the group's gross debt was index linked via bonds and derivatives.

The expected maturity of the outstanding fixed rate and index-linked bonds now ranges from 2011 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

Credit ratings of Glas Cymru bonds

	Standard & Poors	Moody's	Fitch
Class A Bonds	AA	Aaa	AA
Class B Bonds	A	A3	A
Class C Bonds	BBB+	Baa2	BBB+

Future prospects

The main risks to the achievement of the Group's financial objectives in the period to 2010 involve upward cost pressures. The unit costs of investment schemes are under upward pressure. Welsh Water continues to seek to mitigate these input cost increases by securing the resources for a long-term programme of work with its partners and by revisiting designs and working methods to secure offsetting efficiency improvements.

In addition, power costs have increased dramatically over recent years and Welsh Water, like all water and sewerage companies, has a large energy requirement, notably for pumping and treatment processes. The increase in power prices can be only partially offset by improved working practices and investment in energy efficiency schemes. Under the target cost arrangements, these upward cost pressures are shared only to an extent between Welsh Water and its relevant partners.

Welsh Water and its partner Veolia Water also maintain a tight focus on customer cash collection in recognition of the continuing risk posed by increasing water bills and the absence of a disconnection sanction.

Beyond 2010, the financial outlook for the Group will be significantly affected by the Ofwat price review which will determine the future allowed levels of real price increases, together with service standards to be achieved and the required capital investment programme for the AMP5 period (2010 to 2015). Welsh Water will commence the price review process by publishing its draft strategic business plan in August 2008.

Disclaimer

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

Risk

The assessment and mitigation of risk is a key priority for the Board, which has overall responsibility for risk management and internal control, as described in the Governance Statement on page 35.

Glas Cymru cannot diversify into activities unrelated to those of a regulated water and sewerage business. This means that the nature and balance of risk to be managed by the group is different, and in many respects lower, than that of other companies in the UK utility sector.

The Quality and Environment Committee of the Board (QEC) is an important part of our governance system. It provides critical focus on quality, service and the management of risk in its monitoring of the performance of Welsh Water and our contract partners. The work of QEC is described in its annual report to the Board, which is available on our website or on request from the company secretary.

The principal risks faced by the group fall into the four broad categories of strategic risk: regulatory, operational, financial and procurement.

Regulatory risk

Regulatory risk can arise from Ofwat's price control determinations or from changes in the regulatory environment, such as proposals to increase competition in the water industry, which would affect all companies in the sector. A price control determination generates risk in a number of ways: for example, if it were to provide an inadequate cost of capital allowance or be based on regulatory assumptions in respect of operating costs, required

capital investment or revenue forecasts that prove unrealistic. Welsh Water's business plan seeks to meet and, where possible, exceed the assumptions made by Ofwat in its determination for the period 2005-10 (AMP4). Although good progress has been made over the first three years of AMP4, at this stage this objective is still subject to uncertainty. The outcome of the next periodic review in 2009 will also directly impact on future cash flow and profitability.

Welsh Water has to provide extensive data to the regulators each year on all aspects of our business. This responsibility is taken very seriously and processes are reviewed annually to ensure that regulatory data are accurate and robust. In spring 2008, our process of data collation and verification was accredited to ISO 9001:2000.

Our licence requires us to have strong governance arrangements that ensure that the responsibility of Welsh Water for water quality, environmental quality and public health is not blurred. Further details of these arrangements can be found in the Governance Statement on page 35.

Operational risk

Assessment of operational risk has been reviewed during the year following Welsh Water's experience in the summer and winter of 2007-08 of an increased frequency of extreme and erratic weather conditions. This experience showed, in particular, how assets can be at risk of flooding and the risk to the quality of upland raw water abstracted for public water supply.

More generally, operational risk is varied and may include:

- » The impact of major operational incidents on public health, environmental quality or customer service, whether arising from equipment failure, from natural events (such as acts of God, or contamination from naturally occurring compounds) or from third party interference with Welsh Water's assets and equipment
- » Changes in environmental, consumer protection and public health and safety law and regulation, which typically require ever-higher standards of water quality, environmental and safety performance
- » The health and safety risk associated with the operation of a large and complicated network of assets
- » The need to retain and develop key people in Welsh Water to ensure we have the competencies and experience needed to meet our long-term obligations, and
- » Change associated with our programme of IT enabled change (ITEC), which is replacing ageing and largely mainframe IT systems with more flexible systems. Associated with the ITEC programme is a continuing review and simplification of business process and the development of new tools to enable a more efficient delivery of services to customers.

Policies and operational strategies exist to mitigate each of the risks that could create an adverse effect on the reputation, operating results and financial position of Welsh Water.

In the long term, Welsh Water needs to maintain our £17 billion asset base to deliver the high standards of water and wastewater services that customers expect. The rate at which assets can be maintained, refurbished or replaced is affected by the funding allowed by Ofwat through its five yearly price determination. At the rate of investment provided in the price determination for 2005-10, the average age of Welsh Water's assets continues to increase and will be greater at the end of the period than at the start, which may increase risk of future asset failure and poor serviceability.

Business risk is mitigated by the availability and terms of insurance - covering property, business interruption, public liability, environmental pollution and employer's liability. Insurances are generally multi-tiered, with the first tier of self-insurance in the form of a deductible threshold and the second, and often further tiers, of cover provided by external insurers in the market.

Financial risk

Like any business, Welsh Water is exposed to many financial risks, in particular between regulatory price reviews.

Examples include:

- » Revenue risk – such as a reduction in metered demand, the loss of large water business customers, and the introduction of competition into water supply.
- » The collection of customer charges and non-recovery of customer debt. This is a particular risk following the prohibition in 1997 of disconnection of domestic water supply for non-payment.

- » Failure by Welsh Water to achieve the challenging price determination targets set by Ofwat for operating and capital efficiency, or to deliver the capital investment programme.
- » External cost pressures, for example the impact of changes in power prices, which could prevent the business from achieving Ofwat's operating and capital cost targets set at the last price review.

The overall financial risk is that Glas Cymru may not be able to finance the operating and capital investment obligations of Welsh Water, which continue to be financed from cash flow from operations (that is, customers' bills) and capital financing.

Our policy is to ensure that the business has sufficient committed facilities available to meet at least twelve months anticipated net cash requirement. However, recognising favourable market conditions, financing risk has been significantly reduced during the first three years of AMP4 as a result of treasury activity, which has completed Welsh Water's financing requirements for the period until 2010. The Glas Cymru group's financial position at 31 March 2008 shows a significant balance of cash and undrawn borrowing facilities available, which gives the business a high degree of liquidity.

Rising pension costs due to factors outside the Board's control, such as rising pensioner longevity, is also a risk. However, the closed Welsh Water defined benefit pension scheme has only 160 members and is small relative to the size of the business, and the commercial

arrangements we have with our outsourced service partners provide for ongoing pension costs of their staff.

Procurement risk

This is a particular risk for Welsh Water, with 85% of annual operating and capital expenditure being undertaken by outsourced service providers. Our framework for competitive outsourcing is described in a published Procurement Plan, which is available on Welsh Water's website or on request from the company secretary.

Current contract arrangements for water and wastewater services were put in place following a successful competitive re-tendering in 2004, and provide for contract partners to work with Welsh Water for up to 15 years. These working arrangements are kept under regular review and in any event are subject to periodic price and performance review to ensure that Welsh Water's customers continue to receive high quality and value for money services. Contracts have been designed to encourage first tier suppliers to view their involvement with Welsh Water on a long-term basis, thereby reducing the risk of short-term conflict of interest and encouraging greater investment in the resources, people and systems needed to continue to deliver high levels of service to Welsh Water customers.

Definition, purpose and target for each KPI

Measure	Purpose	Source	Target	Progress to Target
Bond credit rating Strategy: Financing	A direct way of further reducing Welsh Water's financing cost is to improve the credit rating of the group's corporate bonds. Executive directors are incentivised to maintain bond ratings	Rating agencies apply their own definition and methodology in assessing bond credit rating. Bond ratings are independently determined by three rating agencies: Standard & Poor's, Moody's and Fitch Lovell.	Corporate credit rating of 'A' grade. This target was achieved in 2007-08	✓
Gearing Strategy: Financing	The Glas Cymru business model aims to reduce Welsh Water's asset financing cost, the industry's single biggest cost. Improved credit quality is key to keeping Welsh Water cost of finance as low as possible. Gearing is the ratio of Net Debt to Regulatory Capital Value of Welsh Water.	Glas Cymru Investor Report	To reduce gearing to around 70%. At 31 March 2008 gearing was 72% (2007: 74%)	✓
Interest cover Strategy: Financing	Meeting interest cover covenants is key to maintaining investor confidence and to keeping Welsh Water cost of finance as low as possible. Interest cover is the ratio of operating cashflow (before maintenance) to net interest (excluding indexation).	Glas Cymru Investor Report	To maintain interest cover consistent with target credit rating. This has been maintained in 2007-08	✓
Customer Dividend Strategy: Customer value	As well as improving credit quality, financing efficiency is used to build up reserves to insulate Welsh Water and its customers from unexpected costs and to have scope to return money to customers through sustained 'customer dividends'. Through the customer dividend, therefore, the customers of Welsh Water share in the success of the business.	Glas Cymru Audited Accounts	Progressive 'customer dividend' policy. This has been maintained – the customer dividend was increased to £20 in 2007-08 (2006-07: £19). It was further increased to £21 for the financial that commenced on 1 April 2008.	✓
Overall Performance Assessment (OPA) Strategy: Customer service	OPA is the measure published by Ofwat of each company's overall delivery of service to customers. It reflects a broad range of services provided to customers across key areas of water supply, sewerage service, security of supply, customer service and environmental impact.	Ofwat	Upper quartile performance relative to the ten water and sewerage companies in England and Wales. Welsh Water was ranked 4th of the 10 water and sewerage companies in 2006-07 (latest published data), marginally outside of upper quartile for the year. However, the company remained in the upper quartile for performance averaged over the last 3 and 5-year periods.	✓
Customer satisfaction Strategy: Customer service	Since 2001 the Board has monitored customer satisfaction with the services provided by Welsh Water via a six monthly customer opinion survey undertaken by Beaufort Research. Although customer opinion can be influenced (often adversely) by media coverage of events elsewhere in the UK water industry, this is an important indicator of the company's progress.	Beaufort Research	To maintain consistent high level of customer satisfaction. This has been maintained in 2007-08; see page 1	✗
Overall bacteriological water quality Strategy: Customer service	An important measure of the quality of water supplied to customers is compliance with bacteriological standards. There is also a correlation between failures in bacteriological quality and unsatisfactory water supplied to customers. This measure is not a component of Ofwat's OPA index.	Drinking Water Inspectorate	100% of all assets compliant. Performance was slightly below 100% in 2007-08 for the reasons stated on page 1.	✓
Health and safety (Accident Incident Rate – AIR) Strategy: Occupational health and safety	AIR is a statistical index used by the Health and Safety Executive (HSE) to benchmark company and sector relative performance. It is the number of reportable incidents occurring in a reported period per 100,000 employees.	June Return	To have one of the best AIR of the UK's water and sewerage companies and to compare favourably with appropriate HSE benchmark for AIR. This target was achieved in 2007-08; see page 1.	✓

The service level indicators reported on page 1 derive from Welsh Water's annual regulatory report to Ofwat (the 'June Return') and are measures defined and monitored by Ofwat, the Drinking Water Inspectorate or the Environment Agency. An Overview of the latest June Return is available on request or from our website www.dwrwymru.com.

DIRECTORS' REPORT AND ACCOUNTS

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THE DIRECTORS



Lord Burns
Chairman^(N)

Appointed Non-executive Chairman in July 2000. Lord Burns (64) is chairman of Abbey National Plc and a Non-Executive director of Banco Santander and Pearson Group Plc. Formerly he was Chairman of the National Lottery Commission and of Marks and Spencer Group plc, and a Non-Executive Director of Legal and General Group Plc and The British Land Company Plc. Between 1980 and 1998 he was Chief Economic Adviser and then Permanent Secretary to HM Treasury. He was made a life peer in 1998. He is also Chairman of the Governing Body of the Royal Academy of Music.



Nigel Annett
Managing Director

Appointed Managing Director in January 2005. Mr Annett (49) has been an Executive Director of Glas Cymru since April 2000, and of Dŵr Cymru (Welsh Water) since May 2001. He was previously a Director of Welsh Water between 1992 and 2000, prior to which he held various investment banking positions with Schroders, County Natwest and Wasserstein Perella.



Chris Jones
Finance Director

Appointed Finance Director of Glas Cymru in April 2000 and of Dŵr Cymru (Welsh Water) in May 2001. Mr Jones (44) was previously 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 on nationalised industries and privatisation. He is a Non-Executive Director of the Principality Building Society and a Member of the Board of the Institute of Welsh Affairs.



John Bryant
Non-Executive Director^{(Q)(R)(N)}

Appointed a Non-Executive Director in March 2001. Mr Bryant (64) is a former Chief Executive of British Steel and, until December 2000, was Joint Chief Executive of Corus Plc. He is a Non-Executive Director of Costain Group Plc, and was a Non-Executive Director of Bank of Wales Plc between 1996 and 2001.



Geraint Talfan Davies
Non-Executive Director^{(A)(R)(N)}

Appointed a Non Executive Director in July 2000. Mr Davies (64) is a former journalist whose career spanned both public and private sector broadcasting (including Controller of BBC Wales throughout the 1990s). He is Chairman of the Institute of Welsh Affairs and of Welsh National Opera, a member of the board of Wales Millennium Centre and a trustee of The Media Standards Trust. He is also a former Chairman of The Arts Council Wales.



Dame Deidre Hine
Non-Executive Director^{(Q)(R)(N)}

Appointed a Non-Executive Director in March 2001. Dame Deidre (70) is Chairman of the BUPA Foundation and the Royal Society of Medicine Press Board. She is a past President of the British Medical Association and The Royal Society of Medicine, a former Chairman of the Commission for Health Improvement, and a former Chief Medical Officer for Wales. Dame Deidre was awarded the DBE in 1996 for services to medicine.



Peter Perry
Operations Director^(Q)

Appointed Operations Director in July 2006. Mr Perry (46) has a civil engineering background and was formerly the Chief Operating Officer for United Utilities Operational Services (UUOS), having previously been the Operations Director for UUOS with responsibility for the operational contract with Welsh Water and UUOS's water interests in Scotland and Ireland. Prior to joining UUOS he worked for Dŵr Cymru (Welsh Water) for over 17 years.



Bob Ayling
Non-Executive Director^{(Q)(R)(M)}

Appointed a Non-Executive Director in April 2008. Mr Ayling (61) is Chairman of Holidaybreak plc and the International Dispute Resolution Centre and Vice-Chairman of Dyson Limited. A solicitor by profession, with 20 years in the City of London and as a senior government legal advisor at the Department of Trade and Industry, he was Managing Director and Chief Executive of British Airways plc from 1993 to 2000. He is also a former Non Executive Director of Royal & Sunalliance Insurance Group.



Tony Hobson
Non-Executive Director^{(A)(R)(M)}

Appointed a Non-Executive Director in February 2001. Mr Hobson (60) is the Chairman of the Sage Group plc and of Northern Foods Plc. He is also a Non-Executive Director HBOS Plc where he chairs the Audit Committee. A Chartered Accountant, he was Group Finance Director of Legal & General Group Plc for fifteen years until his retirement in 2001.



James Strachan
Non-Executive Director^{(A)(R)(M)}

Appointed a Non-Executive Director in June 2007. Mr Strachan (54) is a Non-Executive Director of Legal & General Group Plc, Care UK Plc and Social Finance Limited. He is also a member of the Court of Directors of the Bank of England and Trustee of the charity Save the Children. He was previously Chairman of the Audit Commission (2002-2006) and a Board Member of Ofgem, the energy regulator. He is also a former Chairman of RNID (the disability charity) and a former Disability Rights Commissioner. Earlier in his career Mr Strachan was an investment banker with Merrill Lynch for 13 years.

Membership of Board Committees

^(Q)Quality and Environment

^(A)Audit

^(R)Remuneration

^(M)Nominations

The Members

There are presently 82 Members, including the Directors of Glas Cymru.

A key role of the Members is to ensure that the business remains focused on its primary purpose of providing efficient high quality water and sewerage services to Welsh Water's customers. In so doing Members carry out an important corporate governance role.

Members are selected in accordance with a process overseen by an independent Membership Selection Panel, which is required to maintain a balanced and diverse membership, which as far as possible is broadly reflective of the range of customer and other stakeholder interests served by Welsh Water. Membership is personal, therefore Members do not represent any particular group or stakeholder interest. Members do not receive fees nor do they have any other financial interest in Glas Cymru.

A list of the Members of Glas Cymru, together with the Company's Membership Policy and Terms of Reference of the Membership Selection Panel, is published on the our website www.dwrcymru.com or can be obtained by writing to the Company Secretary.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Glas Cymru Cyfyngedig (Glas Cymru) for the year ended 31 March 2008.

Principal activities

Glas Cymru is a company limited by guarantee and is the holding company of the Glas Cymru group. The principal activity of the group is the provision of essential water and wastewater services to more than three million people living in the region served by Dŵr Cymru Cyfyngedig (Welsh Water), the sixth largest of the ten regional companies in England and Wales. Welsh Water is the group's principal trading company.

Business review

The Companies Act 1985 requires that the Directors' Report should include a Business Review which gives a fair review of the development and performance of the business and a description of the principal risks and uncertainties that it faces.

Aspects of the operational performance of the business are covered in the sections Protecting Public Health (page 8), Safeguarding the Environment (page 10) and Looking After Our Assets (page 12). Financial aspects are covered in the Financial Review (page 22), which is followed by a statement of Risk (page 26). The group's approach to corporate responsibility is covered in the sections Meeting Customer Expectations (page 14), Responsible Business (page 16), and Responding to Climate Change (page 18). The information contained in these sections is incorporated into this Directors' Report by reference to the extent necessary to fulfil the requirements of a Business Review.

The Business Review includes a description of the group's key stakeholders. Consideration of the interests of these stakeholders and other factors likely to impact on the success of the business is an integral part of the Board's decision-making process.

The 2008 Annual Report (including this Directors' Report) has been prepared for the Members of Glas Cymru. It contains certain information of a forward-looking nature, which reflects the knowledge and information available at the date of approval by the Board, but which by its nature is uncertain since future events and circumstances can differ from those anticipated. Accordingly, nothing in this report should be construed as a profit forecast.

Financial results and 'customer dividend'
Profit after tax for the financial year ended 31 March 2008 was £4m after funding the 'customer dividend' (2007: £33 million).

In 2007-08, customers benefited from a 'customer dividend' of £26 million, or £20 per customer served by Welsh Water (£10 for water and £10 for wastewater services). For the financial year 2008-09, for which water bills have been issued, the 'customer dividend' was increased to £21 per household (£10.50 for water and £10.50 for wastewater services) at a cost of £27 million.

Directors

Details of the present Directors are given on page 30. With the exception of James Strachan who was appointed on 1 June 2007, Alison Carnwath who resigned on 13 August 2007 and Robert Ayling who was appointed on 3 April 2008, all Directors served throughout the financial year. No Director has, or has had, a material interest, directly or indirectly, in any contract significant to the Company's business.

At the Annual General Meeting on 4 July 2008 (2008 AGM) Robert Ayling will seek election as a Director, and John Bryant, Deirdre Hine and Anthony Hobson will retire by rotation and seek re-election as Directors. The Nominations Committee has endorsed the effectiveness and commitment of all Directors standing for election or re-election. Further details are set out in the Notice of 2008 AGM.

Details of the remuneration of individual Directors and of the remuneration strategy approved by the Board are included in the Remuneration Report for the year ended 31 March 2008 on page 40. A resolution will be proposed at the 2008 AGM to approve this report.

The Company has in place Directors' and officers' insurance giving appropriate cover against legal action brought against the Directors and an indemnity in circumstances where they are not considered to be culpable. The indemnity is a qualifying indemnity provision for the purpose of the Companies Act is for the benefit of all Directors.

Details of the group's corporate governance arrangements are set out in the Governance Report on page 35

Members

At the date of this report, Glas Cymru has 72 Members excluding the Directors of the Company, including 21 Members appointed during 2007-08. Further details of changes in the membership since the 2007 AGM, together with information about the role of Members and the process for their appointment under the direction of an independent membership selection panel, can be found in the Governance Report on page 39. Further information on this, and brief details of the current Members, is available on request or may be obtained from our website.

Employees

At 31 March 2008 Welsh Water employed 178 people (2007: 165). Other than the Directors of the Company, Glas Cymru has no employees. Having a highly committed staff is crucial to achieving Glas Cymru's primary goal, that Welsh Water should be recognised by its customers as the best water company in the UK, and information on our strategies to support staff is contained in the Business Review (Employer of Choice - page 20).

The business also encourages active participation by staff in the community, through various forms of volunteering, charitable fund raising and community based projects, examples of which are included in the Business Review.

Health and safety

Glas Cymru is committed to achieving high standards of health and safety, as there is nothing more important to us than the health and safety of the people who work for us, and those we affect through our work. Welsh Water's process of health and safety management achieved accreditation to the OHSAS-18001 standard during the year. The performance of Welsh Water and its contract partners in 2007-08 and our current challenges and goals described in our 2008 Health and Safety Report. A copy of this report is available on request or may be obtained from our website.

Water quality and the environment

Continuous improvement in Welsh Water's water quality and environmental performance and in managing the direct and indirect environmental impacts of the business is key to Glas Cymru's future success. The Quality and Environment Committee of the Board (QEC) meets each month to monitor quality and environmental performance. QEC also tracks the development of key operational strategies, as we aim to develop more sustainable water and wastewater businesses based on developing best practice and knowledge, and reviews the cause of and Welsh Water response to all major water quality and environmental incidents. As in previous years, a copy of the 2008 QEC Report is available on request or may be obtained from our website.

Research and development

All expenditure on research and development is incurred by Welsh Water, which continues to monitor and selectively participate in water industry initiatives, most notably through membership of UK Water Industry Research Limited. Through this, and by continuing to benefit from a sharing of best practice from the R&D investment and initiatives by Welsh Water's outsourced contract partners, we aim to maintain our achievements in improving operational efficiency, and to ensure continued compliance with appropriate national and international standards for potable water, sewage effluent and sludge treatment.

Payment policy

Our policy is to agree payment terms at the start of a relationship with a supplier, which will only be changed by agreement. Payment will be made in accordance with agreed terms, save where we advise suppliers when an invoice is contested, which we will do without unreasonable delay. We will seek to remedy payment terms to suppliers of goods and services will be 30 days from date of receipt of a correct invoice for satisfactory goods or services which have been ordered or received, unless other terms are agreed in a contract.

In 2007-08, the average payment period was 49 days (2007: 43 days). Regulations require that in calculating this we include within trade creditors monies retained under contract in respect of Welsh Water capital investment projects. This level of retentions varies from year to year and adversely affects the average payment period for the year.

Charitable and political donations

During the year, charitable donations amounted to £18,559 (2007: £32,874), of which £17,350 was donated to WaterAid. There were no other individual donations of above £500.

It is Board policy not to make donations to political parties or to incur political expenditure, and during 2007-08 no donations or payments (in cash or kind) have been made which are required to be disclosed under section 366 of the Companies Act 2006.

However, the law in this area is broad and could potentially capture legitimate business expenditure not in the ordinary sense considered to be political donations or expenditure. Accordingly, to avoid inadvertent infringement, Member approval is to be sought at the 2008 AGM for the Company to make donations to EU political organisations and/or incur EU political expenditure up to defined limits. This is further explained in the accompanying Notice of 2008 AGM.

Welsh language scheme

The group operates an approved Welsh Language Scheme under the provisions of the Wales Language Act 1993. We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an equally effective standard of service in both languages.

Regulatory accounts (Welsh Water)

Condition F of the Instrument of Appointment under which Welsh Water operates requires that Welsh Water publish additional financial information as an 'appointed business'. A copy of this information will be published on our website or will otherwise be available on request from the Company Secretary.

Going concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2008 have been prepared on a going concern basis.

Auditors

PricewaterhouseCoopers LLP acted as auditors to Glas Cymru for the accounts for the year ended 31 March 2008. As part of the audit process Directors have confirmed that as far as each Director is aware (a) there is no relevant audit information of which the Company's auditors are unaware, and (b) they have taken steps to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors will be put to Members at the 2008 AGM.

DIRECTORS' REPORT

Events subsequent to the financial year-end

On 3 April 2008 Robert Ayling was appointed a Director of Glas Cymru and Welsh Water.

On 7 April 2008 Fitch Ratings ('Fitch') downgraded the ratings of MBIA Assurance SA and MBIA UK Insurance Limited from AAA to AA. In consequence, Fitch also downgraded Dŵr Cymru (Financing) Limited's (Financing's) Class A Bonds, which have the benefit of an MBIA financial guarantee. Fitch's rating of Financing's unwrapped debt was unaffected by this announcement and remained at A (stable) and BBB+ (stable) for the Class B and Class C Bonds respectively, reflecting the stand alone quality of these bonds.

Annual general meeting

The 2008 AGM will be held on Friday 4 July 2008. The business of the 2008 AGM includes the approval of the Directors' Report and Financial Statements and the Remuneration Report for the year ended 31 March 2008, the election or re-election of four Directors, a resolution to authorise the Company to make donations to EU political organisations and/or incur EU political expenditure up to defined limits and a resolution to reappoint the auditors. These resolutions are matters of ordinary business for the 2008 AGM. In addition there will be resolutions to amend certain provisions in the Articles of Association of the Company, to comply with the Companies Act 2006, and to approve a revised annual incentivisation arrangement for Executive Directors. Further information in respect of all resolutions is provided in the Notice of 2008 AGM sent to the Members of Glas Cymru with this report.

By order of the Board



Richard Curtis LLB, ACIS
Company Secretary
10 June 2008

CORPORATE GOVERNANCE

Glas Cymru is committed to high standards of corporate governance and this is critical to maintaining our credentials as a well-managed provider of an essential public service in the eyes of Welsh Water's customers and regulators, and Glas Cymru's bondholders and other stakeholders.

This report explains the key features of the Company's governance structure and how it complies with the Combined Code on Corporate Governance 2006 (the Combined Code), which sets the standard for good practice for UK listed companies, although not all of the provisions of the Combined Code apply to Glas Cymru as a company limited by guarantee. The Company complies with all applicable provisions of the Combined Code, save in respect of the appointment of a Senior Independent Director which is referred to on page 39.

The Board

The Board comprises ten Directors: a Chairman, three executive Directors and six independent Non Executive Directors. The Company believes the Board has an appropriate and diverse mix of experience and expertise to oversee the Group's business and to maximise the effectiveness of the Board ensuring that matters are fully debated and that no individual or group dominate the Board's decision making process. The Company considers each of the Non Executive Directors to be independent in both character and judgement.

The roles of the Chairman and Managing Director are separate and clearly defined. The Chairman is principally responsible for ensuring the effective operation of the Board and that the information it receives is sufficient to make informed judgements, and for ensuring that constructive relationships are maintained with key stakeholders. As part of its regular evaluation, the Board considers the Chairman's availability and capacity to undertake the role against the background of his other commitments.

The Board remains satisfied that the Chairman fulfils his role effectively and has the capacity to be available when unforeseen circumstances arise.

The Managing Director is responsible for the day-to-day management of the business and for the implementation of the strategy, policies and procedures adopted by the Board. The Managing Director is supported by two Executive Directors and by an executive team comprising heads of specialist functions.

The Non Executive Directors have access to all information relating to the Group; the advice and services of the Company Secretary; and, as required, independent external advice at the expense of the company. The Company Secretary is an employee, but not a Director, of the Company.

Biographical details of the current Directors can be found on page 30. Eight Directors held office throughout the financial year 2007-08. The exceptions were James Strachan (appointed: 1 June 2007), Alison Carnwath (resigned: 13 August 2007), and Robert (Bob) Ayling (appointed: 3 April 2008).

Each of the Executive Directors has a written service contract subject to termination by the Company on twelve months notice. Each of the Non Executive Directors has a written letter of appointment subject to termination by the Board on three months notice. A copy of each of these agreements is available for inspection at the Company's registered office and at the annual general meeting.

Details of Directors' remuneration and fees are provided in the 2008 Remuneration Report on page 44.

Board proceedings

The Board meets nine times a year, including two 2-day meetings, to collectively set the strategic direction of the business and to review the operating, financial and risk performance of the business. There is a formal schedule of matters reserved to the Board, which is reviewed annually and which can only be amended by the Board. This includes approval of the annual business plan (which sets the operating and strategic objectives for the business, and the risk framework within which the business will operate), corporate policies, significant transactions above specified thresholds or outside the ordinary course of business and the delegation of Board authority to committees and Executive Directors.

The Board and its committees meet on a regular basis. The table below summarises the number of meetings held in 2007-08 and the level of attendance at each. Bob Ayling was appointed a Non-Executive Director after the 2007-08 financial year-end.

	Board	Audit ^A	Remuneration ^{R (1)}	QEC ^Q	Nominations ^{N (2)}
Number of meetings held in 2007-08	9	4	5	12	4
Number of meetings attended by:					
Lord Burns ^(N)	9				4*
Nigel Annett ^(Q)	9			4 ⁽²⁾	4
Chris Jones	9				
Peter Perry ^(Q)	9			11	
John Bryant ^(R, Q, N)	9		5*	12	4
Geraint Talfan Davies ^(A, R, N)	9	4	5		4
Dame Deirdre Hine ^(R, Q, N)	9		5	11*	4
Tony Hobson ^(A, R, N)	9	4*	5		4
James Strachan ^(A, R, N) <i>(Appointed 01/06/07)</i>	8	3	4		
Alison Carnwath ^(A, R, N) <i>(Resigned: 13/08/07)</i>	3		2*		
Bob Ayling ^(R, Q, N) <i>(Appointed 03/04/08)</i>	n/a	n/a	n/a	n/a	n/a

* Denotes committee Chairman

(1) John Bryant became Chairman of the Remuneration Committee following the resignation of Alison Carnwath

(2) Nigel Annett joined QEC on 1 November 2007. He subsequently attended 4 of the 5 meetings of QEC

(3) In addition to 4 meetings, members of the Nominations Committee met with the new Non-Executive Directors prior to their appointment as part of the Board succession planning process.

CORPORATE GOVERNANCE

Election and re-election of Directors

In accordance with the Company's articles of association, all Directors must stand for re-election at intervals of no more than three years, and any new Director must stand for election at the first annual general meeting following his or her appointment.

At the Annual General Meeting on 4 July 2008 ('2008 AGM') Bob Ayling will stand for election as a Director, this being the first AGM since his appointment. In addition, three Directors, John Bryant, Deirdre Hine and Tony Hobson will retire by rotation and seek re-election at the 2008 AGM. The Board recommends the appointment of each of these Directors.

Information, induction and development of Directors

It is the role of the Chairman, aided by the Company Secretary, to ensure that the Board, its committees and individual Directors receive timely and clear information in respect of the Company's strategy and performance to support meaningful debate and effective decision making. The Company Secretary also advises the Board on corporate governance.

The appointment of a new Director is the responsibility of the Board, having received advice and a recommendation from the Nominations Committee. In line with Principle A5 of the Combined Code, new Directors receive an induction programme to familiarise them with the business, the risks and strategic challenges, and the economic, competitive, legal and regulatory environment in which it operates. Introductory visits are arranged to company sites and to key suppliers (contract partners) and other stakeholders.

A programme also exists to ensure that all Directors have the opportunity to continually update their skills and business knowledge. This can take the form of visits to strategic operational assets, meetings with Welsh Water's key stakeholders, by the provision of information and presentations to the Board on key strategic issues (which also enables Directors to build working relationships with key senior managers and staff below Board level), and by a Director's occasional attendance on an external course.

Evaluation of the Board

The Board and its Directors participate in an annual evaluation process to assess the effectiveness of the collective performance of the Board, and the performance of the Chairman and of the principal committees of the Board. The conduct of this process is overseen by the Chairman and comprises questionnaires completed by Directors, the conclusions of which are collated and analysed by the Company Secretary and collectively discussed at the Board. This is supplemented, as appropriate, by one to one discussions with each Director by the Chairman, following which actions are agreed to address issues raised. The most recent evaluation in March 2008 raised no material weaknesses or failings, but highlighted certain minor aspects for consideration to further improve the effectiveness of the Board.

The Board also meets, without the Chairman present, specifically to review and evaluate the performance of the Chairman. The Chairman assesses the performance of the Managing Director after taking into account the views of other Directors. The performance of Executive Directors and Company Secretary is assessed by the Managing Director, under a process of annual appraisal that applies to all employees.

Committees of the Board

There are four principal committees of the Board each of which has written terms of reference, which define the role and responsibilities of the committee and which are reviewed annually: the Nominations Committee, the Audit Committee, the Remuneration Committee, and the Quality and Environment Committee.

Membership of the various committees, which is intended to make best use of the skills and experience of Non Executive Directors in particular, is set out on page 35. Following each committee meeting a summary of matters discussed is reported to the Board, and the Board subsequently receives the minutes of all committee meetings. Each committee of the Board has authority to employ the services of such advisors, within and outside the Company, as it deems necessary to fulfil its responsibilities.

Details of the work of the Audit Committee, Quality and Environment Committee and Nominations Committee are set out below. Details of the work of the Remuneration Committee can be found in the 2008 Remuneration Report on page 40. In addition to contributing to the formal committees of the Board, certain Directors have been allocated 'special responsibilities' covering important areas such as procurement (John Bryant), communications (Geraint Talfan Davies) and government and regulation (Lord Burns). The Board also has a Finance Committee to approve finance transactions where a decision is required between formal meetings of the Board.

Nominations Committee

The Nominations Committee meets on an ad hoc basis. It is chaired by the Chairman of the Board and comprises all of the Non Executive Directors and the Managing Director. Other Executive Directors attend meetings at the invitation of the Chairman. The Committee met on four occasions in 2007-08 with all members present.

The role of the Nominations Committee is to review the size, structure and composition of the Board and:

- » to lead the process and, with the aid of external search and recruitment consultants, make recommendations to the Board on Executive or Non Executive Director appointments;
- » to ensure that there is a rigorous and transparent process for the appointment of new Directors;
- » to keep under review the composition of the Board through routine evaluation of the skills, knowledge and experience around the board table; and
- » to ensure that plans are in place for orderly succession for appointment to the Board and to other senior executive management positions.

The Board faces an unusual challenge in that four of the current Non Executive Directors, who were appointed within a short time of each other in 2000-01, will have served as Directors for nine years by May 2010. The Committee and the Board have agreed in principle that it would be in the best interests of the company (and of the customers of Welsh Water) to, in due course, consider extending the term of office of some of the Non Executive Directors beyond nine years. This would facilitate some continuity on the Board between the AMP4 (2005-10) and AMP5 (2010-15) regulatory investment periods, and around the review in 2010 of contract pricing under Welsh Water's outsourced procurement arrangements. This would also significantly reduce the risk otherwise associated with completing a Board refresh over a relatively short three-year period. In planning for Board succession the Nomination Committee and the Board is advised by Russell Reynolds & Associates on the recruitment of new Directors.

Audit Committee

The members of the Audit Committee are independent Non Executive Directors: Tony Hobson (Chairman), Geraint Talfan Davies and James Strachan. By invitation of the Chairman, meetings of the committee are attended by the Finance Director, Head of Business Assurance, Internal and External Auditors and selected other senior managers. The Company Secretary acts as secretary to the Committee.

The Board considers that Tony Hobson, a chartered accountant and former Group Finance Director of Legal & General Group plc, has the significant, recent and relevant financial experience required to chair the Audit Committee.

The role of the Committee is to receive and challenge reports from executive management and, as appropriate, from the Group's internal and external auditors, and in particular:

- » to review and advise the Board on the Group's interim and annual financial statements, its accounting policies and on the control of its financial and business risks;

- » to review the nature and scope of the work to be performed by the external auditors and outsourced internal audit function, the results of their audit work and of the response of management;
- » to review and advise the Board on the effectiveness of the Group's internal control environment, including the 'Whistleblowing' procedures;
- » to make recommendations on the appointment and remuneration of external auditors and to monitor their performance; and
- » to approve and monitor the policy for non-audit services provided to the Group by the external auditors to ensure that the independence of the auditors is not compromised.

During 2007-08, the Audit Committee met on four occasions, with all members present. The Committee reviewed the draft annual and interim reports and associated preliminary and interim results announcements, focusing on key areas of judgement and significant accounting policies. Time is allocated at two meetings a year to review the findings of the risk management process, including a review of mitigation plans for significant business risks. Significant reports and issues arising from the risk based audit programme are discussed at every meeting of the Committee.

Relationships with the external auditor and outsourced internal audit service provider are managed through the Managing Director and Finance Director. During the year, the Audit Committee approved external and internal audit plans, and met privately with the internal and external auditors without executives present as part of its annual review of audit independence. The Audit Committee also met with Executive Directors and management. On the basis of this work, the Audit Committee is able to assess the ongoing effectiveness of internal and external audit.

The role of internal audit is to provide independent and objective assurance and to advise management and the Board on the extent to which systems of internal control are effective and that the processes by which significant risks are identified assessed and managed are appropriate and effectively applied. The internal audit work-plan (which covers the scope, authority and resources of such activity) is determined through a structured process of risk assessment to ensure that it is focused on areas of greatest risk to the business, and is approved by the Audit Committee.

During the year, external auditor services was provided by PricewaterhouseCoopers LLP and the conduct, but not the management, of internal audit activity was outsourced to Grant Thornton UK LLP, which gives access to a wider range of experienced auditors. The Audit Committee has reviewed the policies of the external auditor to ensure their independence and that of their engagement partner and that Board policy on non-audit fees has been met. This provides that the external auditor will not be used for internal audit services, and all non-audit work above a threshold of £25,000 will be subject to prior competitive tendering and approval by the Audit Committee. Total external auditor remuneration is analysed between audit and non-audit work in Note 4 to the Accounts on page 57.

The terms of reference of the Audit Committee include all matters required by the Combined Code and the Committee reviews its own effectiveness through a process of annual self-assessment. The Committee has unrestricted access to Company documents and staff and to external auditors and the Finance Director and Head of Business Assurance and external auditors each have a right of direct access to the Chairman of the Audit Committee in respect of matters they wish to bring to his attention.

CORPORATE GOVERNANCE

Quality and Environment Committee (QEC)

QEC meets each month and comprises three Non Executive Director members (Dame Deirdre Hine, Chairman, John Bryant and Bob Ayling) and two Executive members (Nigel Annett and Peter Perry), who are advised by two independent experts on the public health and operational aspects of water supply and environmental management. By invitation of the Chair, meetings of the Committee are also attended by Welsh Water's Head of Quality and Performance. The Company Secretary acts as secretary to the Committee.

The role of QEC is to:

- » Advise the Board on matters of operational policy and practice, and to routinely review the performance of Welsh Water and its contract partners against key performance indicators, in relation to matters of public health, compliance with drinking water regulations and environmental laws and regulations and occupational health and safety.
- » Review the development of key operational strategies, as Welsh Water aims to develop more sustainable water and wastewater businesses based on industry best practice and knowledge.
- » Assess Welsh Water's management of and response to significant water quality or environmental incidents, or any weakness identified under the internal audit quality programme of work.

QEC produces an annual report to the Board, which is a published document. This report is issued to the Drinking Water Inspectorate and Environment Agency (the 'Quality Regulators'), and the Board is required to notify the Quality Regulators at once if it does not implement any recommendation made by QEC. The activities of QEC are also subject to review by Welsh Water's Reporter (the independent consultant appointed by Welsh Water with the approval of Ofwat) who will report to Ofwat and the Quality Regulators on the effectiveness of Welsh Water's system of planning and internal control. Copies of the 2008 QEC Report may be obtained on request from the Company Secretary or from our website.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and for monitoring its effectiveness. Implementation and maintenance of internal control systems are the responsibility of Executive Directors. An essential part of internal control is the establishment of processes designed to identify, evaluate and manage the significant risks faced by the Group. However, there are limitations in any control process and even the most effective system can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board has regard to materiality and to the relationship between the cost of, and the benefit from, internal control systems.

Key features of the system of internal control and risk management are:

- » Systems that provide clear accountability for risk management and provide assurance to successive levels of management and to the Board, including regular reporting of performance for all significant aspects of the Group's business.
- » Controls that recognise that the nature and balance of risk changes and evolves continuously and provide a framework within which controls, standards and policies are progressively developed.
- » Key risks and hazards are identified, measured and managed to achieve an acceptable balance between risk and reward in delivery of the annual business plan, through which the Board approves the parameters of acceptable risk for the business.
- » Assurance is provided by external independent audit and assessment of internal quality management systems. All audit activity is conducted under broad risk based programme approved by the Audit Committee, which is designed to ensure that management information is accurate timely and relevant and reflects the true position of the business.

- » Procedures exist to monitor policies for the approval and control of major items of capital expenditure, the acquisition and disposal of material assets, or the entering into of any arrangement that gives rise to, or could give rise to, a material liability.
- » Managing risk is a responsibility for all managers in the business. For each major type of risk, there is a designated individual or team to ensure that appropriate guidance is available for managers across the business.

Executive management reviews the effectiveness of risk management controls on a continuing basis through a Risk Management Group, chaired by the Managing Director. This group reviews and challenges the robustness of risk management procedures, including that of Welsh Water's contracting partners, and includes areas such as public health, environment, business ethics, employment, occupational health and safety and business continuity. The Risk Management Group also monitors procedures that encourage all staff to participate in open two-way dialogue to ensure that risk is understood and managed early and effectively, and to learn from our own experience and the experience of others to promote best practice. The Audit and Quality and Environment Committees of the Board receive an update on the Group's principal risks and process of risk management every six months, and this is reviewed annually at the Board.

In judging the effectiveness of the Group's systems of internal controls, the Board considers periodic reporting from the Risk Management Group, the Audit Committee and the Quality and Environment Committee, in addition to its routine monitoring of key performance indicators and monthly reports of financial and operational performance, which flag variances against business plan and budget. By so doing, the Board reviews the effectiveness of the internal control system over the course of the year.

Members of Glas Cymru

A key role of the Members is to ensure that the business remains focused on its primary purpose of providing efficient high quality water and sewerage services to the communities served by Welsh Water. In doing this, Members carry out an important corporate governance role - and for this reason membership is personal. Members are not appointed to represent any particular group or stakeholder interest.

The Board appoints the Members, but only individuals recommended by an independent membership selection panel (the 'panel') can be considered for appointment. The role of the panel is to recommend individuals who in a written application have shown they have the skills, experience and interests to be an effective Member. In addition the panel is required to ensure that overall a balanced and diverse membership is maintained, which is as far as possible broadly reflective of the range of customer and other stakeholder interests served by Welsh Water. The Chairman of the panel has confirmed to the Board compliance by Glas Cymru with the terms of its published Membership Policy.

At the date of this report, Glas Cymru has 72 Members, excluding the Directors of the Company but including 21 Members appointed during 2007-08. Subsequent to the financial year-end, and following evaluation and recommendation by the panel, the Board has approved the reappointment of 21 Members whose term of office would otherwise expire at the end of the 2008 AGM. Further details of the Membership Policy and the Members of Glas Cymru can be obtained from the Company Secretary or from our website.

Communication with Members and key stakeholders

The Board attaches high importance to maintaining good relationships with Members and all key stakeholders. Members of Glas Cymru have regular opportunity to meet with Directors at the two Members' Meetings held each year. At these meetings, Directors, including the chairmen of the key Board committees, are available to answer questions. All Members, including those unable to attend any meeting, receive a written brief of issues discussed.

In addition to an annual bondholder/investor meeting held in London, immediately following the announcement of interim and preliminary results for any period there are informal meetings with major bondholders and other investors, who may also request a meeting with an independent Non Executive Director at any time. The Board receives a report following meetings with investors. Regular communication is also maintained with each of the economic, quality and customer service regulators of Welsh Water. As a result of the above, the Board has concluded that the nomination of a Senior Independent Director would not improve governance and has not appointed one.

By order of the Board



Richard Curtis LLB, ACIS
Company Secretary
10 June 2007

REMUNERATION REPORT 2007-08

Compliance

This report has been prepared in accordance with the provisions of the Companies Act 1985 and the Directors' Remuneration Report Regulations 2002 (the Regulations). The report has been approved by the Board and will be put to Members for approval at the 2008 Annual General Meeting (2008 AGM).

In accordance with the Regulations, the Directors' emoluments table, long-term performance related bonus table and pension table on pages 43 and 44 have been audited; the remainder of the report has been reviewed by PricewaterhouseCoopers LLP.

Remuneration Committee

The Remuneration Committee (the 'Committee') is chaired by John Bryant and comprises all the Non Executive Directors. The Chairman of the Board, along with the Managing Director, attends meetings of the Committee by invitation, as appropriate. The Committee met on five occasions in 2007-08.

The role of the Committee is to approve, implement and keep under review the remuneration policy and practice and specifically:

- » to agree with the Board the policy and framework for the remuneration of the Chairman, Non Executive Directors and Executive Directors and senior managers;
- » to agree the terms of service contracts and remuneration for Executive Directors and senior managers; and
- » to determine incentive arrangements that encourage enhanced performance and reward individuals in a fair and responsible manner for their contribution to the success of the Company.

A copy of the full terms of reference of the Committee is available on the Company's website or on request from the Company Secretary.

The Company Secretary and Head of Human Resources attend all meetings of the Committee and provide information and advice as necessary. In addition, the Committee has sought independent external advice on certain aspects of remuneration policy and best practice. The firms named below advised the Committee in 2007-08, and have been reappointed to advise the Committee in 2008-09:

- » Hewitt New Bridge Street (a trading name of Hewitt Associates Limited which acquired New Bridge Street Consultants LLP on 18 March 2008), who advise on market best practice in the design of incentive performance arrangements, the benchmarking of Directors' remuneration and fees and senior management service contracts and remuneration and in relation to pension matters; and
- » Linklaters & Alliance, who provide legal advice to the Committee on Directors' service contracts and pension matters.

In 2007-08 the Committee also received pension advice from Quantum Actuarial LLP.

In the view of the Committee, there were no conflicts of interest in relation to these organisations advising both the Company and the Committee.

Remuneration Policy

The aim of the remuneration policy is to ensure that, in a competitive market place, the business is well managed by high calibre executives who are incentivised to produce sector-leading performance for the benefit of Welsh Water's customers, investors and other key stakeholders. The policy is designed to align as closely as practicable the interests of the individual with the longer-term interests of the business and, especially, the interests of the customers of Welsh Water. Accordingly, a high proportion of Executive Directors' remuneration is dependent on Welsh Water's performance in terms of water quality, protecting the environment and customer service.

The executive remuneration package comprises four elements: base salary and benefits, annual performance related bonus, a longer-term performance related incentive and pension.

The remuneration policy applies to the senior management team, as well as to Executive Directors, and has been founded on the following principles:

- » overall, remuneration packages shall be broadly competitive when compared to the relevant market;
- » a significant proportion of the Directors' Remuneration should be 'at risk' and dependent on achievement of stretching performance targets;
- » water and environmental quality, customer service and financial performance are the key criteria by which the success of the business is judged and shall therefore be key determinants of performance related pay;
- » only by an appropriate combination of annual and longer term incentivisation arrangements can the Committee ensure that individuals are motivated and that their interests are suitably aligned with the longer term objectives of Glas Cymru and the customers of Welsh Water; and
- » the Remuneration Policy shall reflect the stated intention of the Board that Welsh Water should be one of the consistently best performing water companies in the sector, and that to earn bonuses Directors must outperform the level of water and environmental quality, customer service and financial performance expected by Welsh Water's regulators.

During 2007-08 the Committee reviewed the incentive arrangements in place to ensure that they supported the above principles. The Committee found that the quantum of maximum potential remuneration available for the Executive Directors had fallen behind relevant market benchmarks. Following careful consideration, taking into account practice in the listed water companies and other water companies of comparable size, the Committee believe that it is necessary to increase the annual bonus potential for 2008-09 to 100% of salary. Receipt of the additional bonus of 20% will be dependent on delivery against specific operational measures, to be determined by the Committee on an annual basis. These will be structured as absolute measures and as such will be dependent on improved performance by Welsh Water and not simply good relative performance. It is intended that this change will address two issues: improving the market positioning of the current remuneration arrangements; and supporting the principle that Welsh Water delivers consistently strong operational performance. Accordingly, to earn the maximum bonus, Executive Directors would need to show evidence of significant improvement in performance in each of the selected operational measures (see further details below), with no element of this additional bonus being payable if performance against each respective measure fails to show progress. To achieve maximum additional bonus in any year, performance against the selected operational measures would generally need to be industry leading.

In the light of recent corporate activity in the utilities sector, the Committee felt that it was necessary to review and change the comparator companies used in benchmarking remuneration. For 2007-08, the Remuneration Committee considered pay in the UK water companies (both quoted and unquoted) taking into account, amongst others, turnover and business complexity (e.g. regulatory versus non regulatory business and international exposure) of the comparator companies. In addition, reference was made to remuneration practice in the FTSE 250, the index of which Welsh Water would be a constituent if it were a quoted company. The appropriateness of the comparator group is reviewed on an annual basis.

Bonus Policy: Annual Performance Related Bonus

For 2007-08, the maximum annual cash bonus payable was 80 percentage points of base salary ('PPBS'), with 50 PPBS (62.5% of the maximum) being payable for reaching 'target' level of performance. As noted above, for 2008-09 the maximum potential bonus will be increased to 100 PPBS. Payment of the maximum bonus will be divided across three components: customer service performance (40 PPBS), financial performance (40 PPBS) and performance against four specific operational measures (20 PPBS, 5 PPBS per measure). Target bonus for 2008-09 for the customer service and financial performance elements will remain the same as in 2007-08, i.e. 50 PPBS (62.5% of the maximum).

The customer service component is determined with reference to the 'Overall Performance Assessment' ('OPA') published by Ofwat, and can earn up to 40 PPBS for achieving 1st position in the OPA ranking of the ten water and sewerage companies of England and Wales ('OPA League Table'). 8 PPBS (20% of the maximum for this element) will be payable for achieving median performance, being the average score of the 5th and 6th ranked companies, with ranking above this (but not below) rewarded on a linear scale.

The OPA includes non-financial performance measures for:

- » water supply: including drinking water quality compliance, interruptions to supply and restrictions on supply;
- » sewerage measures: including sewage flooding incidents and a quality of effluent discharges to the environment that meets legal and regulatory standards; and
- » customer service performance: including speed of response to telephone and written billing enquiries and handling of written complaints.

The 2007-08 Accounts include an accrual of £315,172 (equivalent to 51.6 basis points) reflecting the Committee's current estimate of Welsh Water's relative performance for the year ended 31 March 2008. The Committee will make its final assessment of bonus payable for 2007-08 in the Autumn 2008, following publication by Ofwat of its Levels of Service Report for the year.

At the discretion of the Committee, this bonus entitlement may be adjusted upward or downward by up to 10 PPBS to reflect identifiable and significant aspects of customer service performance not captured by OPA. In respect of the annual bonus payable for 2006-07, the Committee considered whether to use this discretion in respect of the outbreak of cryptosporidium in part of North Wales in November 2005, for which Welsh Water had been prosecuted in November 2007. The outbreak of illness linked to water supplied from Cwellyn water treatment works was a serious matter, but there were strong mitigating circumstances. On balance, the Committee determined it was important to recognise the importance of the Cwellyn incident in Executive Directors' bonuses and agreed to reduce the annual cash bonus for 2006-07, which was paid in November 2007, by 5 PPBS.

The financial component of the annual performance related bonus is based on net cash flow (before capital expenditure but after net interest payable) and can earn up to 40 PPBS. Performance will be rewarded on a linear scale from zero for meeting the annual cash flows in the regulatory settlement for 2005-10 announced by Ofwat in December 2004 (the 'Final Determination'), 25 PPBS (62.5% of maximum for this element) and 40 PPBS for reaching the respective target and maximum levels approved by the Committee. To achieve target level bonus accordingly requires that Welsh Water outperform the Final Determination, which is a key requirement if the business is to achieve the challenging objectives set by the Board.

REMUNERATION REPORT 2007-08

The measures selected by the Committee to comprise the 'operational measures' component of the annual performance related bonus for 2008-09 are set out below. Each of these measures shall attract a maximum bonus of 5 PPBS, with no bonus being payable for performance at or below performance in 2007-08. Save for measure (i) below, to earn maximum bonus Executive Directors would need to deliver performance ahead of the best performing of the ten water and sewerage companies in 2007-08.

- (i) Avoidable customer complaints, being complaints that relate to a service failure by Welsh Water, which shall not include complaints as regards matters of Board policy or activity relating to the collection of customer charges. To receive maximum bonus against this measure, in 2008-09 the number of avoidable complaints would need to reduce by more than 50%.
- (ii) Sewer flooding attributed to 'other causes' – i.e. other than due to hydraulic overload of the sewer network.
- (iii) Category-3 pollution incidents.
- (iv) The Operational Performance Index ('OPI'), which is a Drinking Water Inspectorate performance index used by Ofwat as a key measure to assess overall drinking water quality.

Bonus Policy: Rolling Long Term Incentive Scheme ('RLTIS')

The RLTIS is a longer-term incentive scheme introduced on 1 April 2005 on the basis of a rolling three-year period (except during the first two years). The maximum bonus payable under RLTIS will be 60 PPBS, with 30 PPBS (50% of the maximum) being payable for reaching 'target' performance. Maximum bonus is divided equally between customer service and financial performance components.

Payments under RLTIS will normally be made within six months of the end of the final year to which they relate, but payment may be deferred at the discretion of the Committee in the event that there is a significant deterioration in performance. Deferral may be for up to two years, or until the shortfall has been remedied, whichever is the earlier. In addition, payment of up to 20 PPBS will be deferred in the event that the underlying rating of any of the Company's bonds have been put on 'credit watch' by any of the Rating Agencies, either until taken off 'credit watch' or until they have been downgraded, in which case the 20 PPBS shall be forfeited.

The customer service component will be determined with reference to Welsh Water's position in an adjusted OPA League Table, compiled by aggregating OPA scores for each of the last three years up to and including the relevant year of assessment. Bonus will be payable on a sliding scale of 100% (30 PPBS) for achieving 1st position, 75% for 2nd, 50% for 3rd, 25% for 4th and zero for being ranked 5th or below of the ten comparator companies.

The financial performance component will be based on 'Financial Reserves' (Regulatory Capital Value less net debt) at the end of the relevant year, as defined for the purposes of the quarterly Investor Report routinely published by the Company. Growth in Financial Reserves is considered the best financial measure of customers' interest in the business, as it is from Financial Reserves that the 'customer dividend' and additional investment to deliver service improvements will be funded. Growth in Financial Reserves captures the dynamics on which the objectives of Glas Cymru were founded and aligns the financial interests of Executive Directors in a direct and simple way with those of customers.

The Committee will normally confirm target ranges three years in advance, save where a shorter period is necessary to reflect the timing of Ofwat's regulatory price reviews. However, these ranges will be subject to revision by the Committee each year in certain circumstances. These include: (a) where there are differences between actual inflation and the assumptions originally made; (b) where the Board changes the 'customer dividend' after the original forecast was made; and (c) where there is any other material influence on Financial Reserves not originally foreseen and which the Committee determines to be outside the control of Executive Directors. Payment of bonus will be measured by reference to a lower limit, the Final Determination, at which no bonus will be earned, a target level at which 50% of maximum will be earned and an upper limit, set by the Committee, at which maximum bonus will be earned. Again, to achieve target level bonus accordingly requires that Welsh Water outperform the Final Determination.

The Committee may at its discretion adjust any bonus calculation, up or down, to reflect events or factors that are not captured by the bonus formulae described above, providing that justification for any such adjustment will be disclosed in the next annual report.

The 2007-08 Accounts include an accrual of £185,683 (equivalent to 30.4 basis points) reflecting the Committee's current estimate of Welsh Water's relative performance for the three-year period ended 31 March 2008. The Committee will make its final assessment of bonus payable under the RLTIS for 2007-08 in the Autumn 2008 following publication by Ofwat of its Levels of Service Report for the year.

Remuneration: Chairman and Non Executive Directors

Responsibility for determining the fees of the Chairman of the Board and of the Non Executive Directors sits with the Committee and with the Board respectively. These fees are reviewed annually and were last revised with effect 1 April 2008, when they were increased to:

Chairman £190,000 (2007: £180,000)

Non Executive Directors £52,500 (2007: £50,000)

No additional amount is payable to the Chairman or any Non Executive Director for the chairmanship of, or membership of, Board Committees or for the undertaking of any special responsibilities on behalf of the Board (further details of which can be found in the Corporate Governance Statement on page 36).

The Chairman and the Non Executive Directors are appointed under letters of appointment, terminable by either party on three months' written notice.

Remuneration: Executive Directors Salary

At 1 April 2008 the base salaries of the Executive Directors were as below:

Nigel Annett (Managing Director)

£260,000 (2007: £240,000)

Chris Jones (Finance Director)

£205,000 (2007: £185,400)

Peter Perry (Operations Director)

£195,000 (2007: £185,400)

The Committee reviews base salary on an annual basis using competitive market data provided by Hewitt New Bridge Street.

Bonus

Annual performance related bonus

In Autumn 2007 Executive Directors received an annual incentive bonus for the year ended 31 March 2007 equivalent to 44.6% of salary, of which 9.1% related to performance against customer service targets and 35.5% to meeting financial targets. This compared to an accrual in the 2006-07 Accounts of 43.5%.

Rolling Long Term Incentive Scheme

In Autumn 2007 Executive Directors received a payment under the RLTI in respect of the period ended 31 March 2007 equivalent to 39.1% of salary, of which 15% related to performance against customer service targets and 24.1% to meeting financial targets. This compared to an accrual in the 2006-07 Accounts of 39.1%.

Pensions

The Executive Directors are all members of the Welsh Water Pension Scheme, a defined benefit scheme. Their normal retirement age under this scheme is 60 and benefits accrue at 1/45th of salary per year of pensionable service, subject to a maximum overall pension at normal retirement age of two-thirds of final pensionable salary. The scheme also provides life cover of four times pensionable pay for death in service, a pension payable in the event of ill health and a spouse's pension payable on death. Executive Directors are also entitled to participate in a private health and medical insurance scheme.

The pension benefits earned by the Directors during the year are shown in the table below.

	Accrued Pensions (per annum) at 31 March 2008	Real increase in accrued pension in the year (net of inflation)	Transfer value at 31 March 07	Transfer value equivalent of increase in accrued pension	Transfer value at 31 March 08	Contributions paid by Director	Transfer value of real increase in accrued pension, net of member contributions
NC Annett ⁽¹⁾	£88,853	£5,277	£83,0736	£131,110	£961,846	£14,400	£42,724
CA Jones*	£53,854	£4,109	£38,6213	£68,892	£455,105	£11,124	£23,600
PD Perry ⁽²⁾	£59,655	£9,825	£42,4138	£127,500	£551,638	£11,124	£79,729

* Accrued pension includes previous service in Hyder Water Pension Scheme.

(1) The figures for Nigel Annett include both funded and previously unfunded accrued pensions. Last year, notwithstanding the abolition of the Earnings Cap, there remained a small element of unfunded pension and this was disclosed separately. This was due to the introduction of the Annual Allowance, which restricts the amount of pension that can be credited each year through an approved scheme. As at 31 March 2008 all pension benefits can be, and were, funded through the approved scheme.

(2) The accrued pension and transfer value at 31 March 2007 and 31 March 2008 allow for Peter Perry's augmented benefits at those dates. The augmentation is based on the reinstatement, over a five year period, of a full salary link to benefits transferred into the scheme from his previous employer.

REMUNERATION REPORT 2007-08

Directors' Emoluments (excluding pension benefits and long term performance related bonus)

The table opposite reports emoluments receivable in respect of the year ended 31 March 2008, and includes a best estimate of the performance related annual bonus relating to customer service performance for 2007-08. The annual performance related bonus is ordinarily paid in the Autumn, following publication by Ofwat of its Levels of Service Report, which sets out the comparative performance of the ten water and sewerage companies of England and Wales and the OPA data for the financial year in question.

The extent to which this element of the bonus has been over or under estimated will be disclosed in the Remuneration Report for next year.

The Committee believes the presentation adopted below allows a direct comparison of Directors' remuneration year on year. The information required to comply with the Companies Act is provided in full and is disclosed in the table and in the supplementary notes.

The following emoluments were earned by the Directors in respect of the financial year ended 31 March 2008.

The following emoluments were earned by the Directors in respect of the financial year ended 31 March 2008.

2007-08	Lord Burns	NC Annett	CA Jones	P Perry ⁽¹⁾	JM Bryant	A Carnwath	GT Davies	DJ Hine	AJ Hobson	JM Strachan ⁽²⁾	Total
Salary	-	£240,000	£185,400	£185,400	-	-	-	-	-	-	£610,800
Bonus 2007-08 Provision											
Annual bonus ⁽³⁾	-	£123,840	£95,666	£95,666	-	-	-	-	-	-	£315,172
Benefits in kind ⁽⁴⁾	-	£486	£486	-	-	-	-	-	-	-	£972
Fees	£180,000	-	-	-	£50,000	£18,297	£50,000	£50,000	£50,000	£41,667	£439,964
Total emoluments relating to 2007-08	£180,000	£364,326	£281,552	£281,066	£50,000	£18,297	£50,000	£50,000	£50,000	£41,667	£1,366,908

The following emoluments were earned by the Directors in respect of the financial year ended 31 March 2007.

2006-07	Lord Burns	NC Annett	CA Jones	J O'Sullivan ⁽¹⁾	P Perry ⁽¹⁾	JM Bryant	A Carnwath	GT Davies	DJ Hine	JM Strachan ⁽²⁾	Total
Salary	-	£231,000	£178,500	£89,250	£119,000	-	-	-	-	-	£617,750
Bonus 2007-08											
Annual bonus provided in the accounts ⁽⁵⁾	-	£100,485	£77,648	£71,400	£51,765	-	-	-	-	-	£301,298
2006-07 bonus adjustment	-	£2,541	£1,963	-	£1,309	-	-	-	-	-	£5,813
Total bonus ⁽⁶⁾	-	£103,026	£79,611	£71,400	£53,074	-	-	-	-	-	£307,111
Benefits in kind ⁽⁴⁾	-	£878	£669	£323	-	-	-	-	-	-	£1,870
Fees	£172,000	-	-	-	-	£48,000	£48,000	£48,000	£48,000	£48,000	£412,000
Compensation for loss of office	-	-	-	£178,500	-	-	-	-	-	-	£178,500
Total emoluments relating to 2006-07	£172,000	£334,904	£258,780	£339,473	£172,074	£48,000	£48,000	£48,000	£48,000	£48,000	£1,517,231

Notes

- (1) Changes of Director – 2006-07: J O'Sullivan resigned as a Director on 31 July 2006; P Perry was appointed a Director on 1 August 2006.
- (2) Changes of Director – 2007-08: J Strachan was appointed a Director on 1 June 2007; A Carnwath resigned as a Director on 13 August 2007; R Ayling was appointed a Director on 3 April 2008.
- (3) The financial statements for the year ended 31 March 2008 include a provision of £315,172 (51.6% of base salary) for annual cash bonus potentially payable to Executive Directors for performance in the financial year 2007-08. This provision has been estimated on the basis that performance in Ofwat's Overall Performance Assessment for 2006-07 will be 4th. The final amount to be paid to each Director will be determined when Ofwat publishes OPA results for 2007-08 in the Autumn of 2008, and could be higher or lower.
- (4) Benefits in kind relate to receipt of private medical insurance, ill health cover and life insurance.
- (5) An annual performance bonus of £301,298 was provided for in the Report and Accounts for 2006-07 and was estimated on the basis that OPA performance on 2006-07 would be 5th.
- (6) The actual annual performance bonus in respect of 2006-07, after adjustment by the Remuneration Committee (see page 41 above), totalled £307,111 (44.6% of salary) and was paid in November 2007, following publication of Ofwat's OPA report for 2006-07, which confirmed Welsh Water's position as 4th.
- (7) The highest paid Director in 2007-08 was NC Annett who received emoluments of £364,326 (2007: NC Annett £334,904).
- (8) The compensation for loss of office equates to one year's salary and, in accordance with the Companies Act 1985, is not included in the calculation of emoluments for the highest paid Director.
- (9) Details of payments under the Rolling Long Term Incentive Scheme are disclosed on page 45 of the 2008 Remuneration Report.

Directors' Earnings: Rolling Long Term Incentive Scheme

In addition to the emoluments disclosed in the table on page 45, provision is made in the 2007-08 Accounts for the payment under the three year rolling long term incentive scheme (RLTIS) which is payable in Autumn 2008.

The provision of £185,683 equates to 30.4% of salary, and has been estimated on the basis that the performance in Ofwat's Overall Performance Assessment for the three year period 2005-06 to 2007-08 will be fourth, as follows:

Nigel Annett £72,960

Chris Jones £56,362

Peter Perry £56,362

The final amount to be paid to each Director will be determined when Ofwat publishes its OPA results for 2007-08 in Autumn 2008, and could be higher or lower than the provision made.

The 'Levels of Service Report' published by Ofwat for the year ended 31 March 2007 ranked Welsh Water fourth in OPA performance of the ten water and sewerage companies. Following publication of this report, in November 2007 payments were made to executive Directors totalling £206,644 (equivalent to 39.1 basis points): Nigel Annett £90,321, Chris Jones, £69,794 and Peter Perry £46,529. These payments were the same as the provision made in the 2006-07 Accounts.

Service contracts

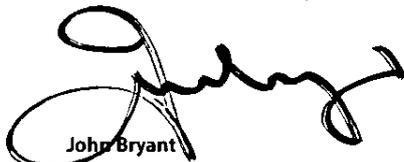
The Executive Directors have service contracts that are subject to one year's notice. Directors' service contracts do not provide for compensation to be payable in the event of early termination by the Company. At the Company's discretion, an Executive Director may be paid base salary alone in lieu of notice. As such, a significant element of mitigation is built into the Executive Directors contracts should the Company choose to exercise its option to make a payment in lieu of notice.

External appointments

The Board recognises the benefit of broadened experience that might be achieved through the involvement of Executive Directors in external activities. Any appointment is subject to annual approval by the Committee and, subject to the Committee's agreement; a Director may retain any fees. Chris Jones is a Non Executive Director of the Principality Building Society, in respect of which he retains a fee of £30,600 per annum.

Recommendation

The Committee believes that the Remuneration Policy continues to provide the right balance of salary and incentives to reward and motivate Executive Directors to the attainment of the challenging goals the Board has set for the Company. Accordingly, the Committee encourages the Members of Glas Cymru to approve this 2008 Remuneration Report.



John Bryant
Chairman: Remuneration Committee
6 June 2008

DIRECTORS' RESPONSIBILITY

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. They are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and have elected to prepare the parent Company financial statements on the same basis.

The Group and parent Company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent Company and of the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 judgments and estimates that are reasonable and prudent
- » state whether they have been prepared in accordance with IFRS as adopted by the EU
- » prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, a Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

The Company is responsible for the maintenance and integrity of the corporate and financial information included on our Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Richard Curtis LLB, ACIS
Company Secretary
10 June 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GLAS CYMRU CYFYNGEDIG

We have audited the group and parent company financial statements (the 'financial statements') of Glas Cymru Cyfyngedig for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Reserves, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited, at the request of the directors, the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities. The directors are also responsible for preparing the Directors' Remuneration Report (because the Company applies the requirements of Schedule 7A to the Companies Act 1985 as if it were a listed company).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We also, at the request of the directors, audit the part of the Directors' Remuneration Report to be audited (because the Company applies the requirements of Schedule 7A to the Companies Act 1985 as if it were a listed company). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the

part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business and Financial Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Business and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We also, at the request of the directors (because the company applies the Financial Services Authority listing rules as if it were a listed company), review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis,

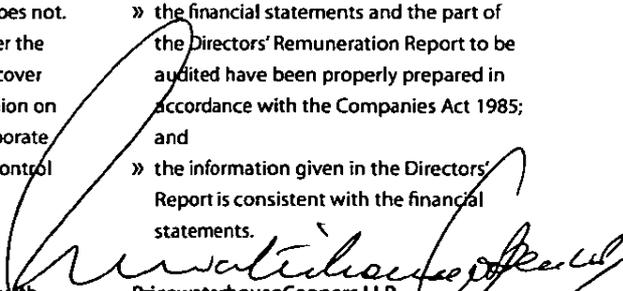
of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- » the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- » the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008;
- » the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- » the information given in the Directors' Report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors, Cardiff
11 June 2008

PRIMARY STATEMENTS

Consolidated income statement for the year ended 31 March 2008

	Note	£m	2008 £m	£m	2007 £m
Revenue			622.9		578.0
Operating costs					
- Operational expenditure	4		(230.8)		(228.6)
- Infrastructure renewals expenditure	4		(97.5)		(84.1)
- Depreciation and amortisation	4		(122.3)		(111.8)
- Profit on disposal of fixed assets	4		0.8		-
Operating profit			173.1		153.5
Financing costs					
- Interest payable and similar charges	3a	(171.5)		(159.1)	
- Interest receivable	3a	12.2		7.4	
- Fair value (losses)/gains on financial instruments	3b	(47.9)		45.7	
			(207.2)		(106.0)
(Loss)/profit before taxation	4		(34.1)		47.5
Taxation credit/(charge)	5a		38.3		(14.2)
Profit for the year			4.2		33.3

Consolidated statement of changes in reserves for the year ended 31 March 2008

	2008 £m	2007 £m
Reserves at 1 April	(45.9)	(79.2)
Profit for the year	4.2	33.3
Reserves at 31 March	(41.7)	(45.9)

The group had no other recognised gains or losses in the year (2007: none) and accordingly a statement of recognised income and expense has not been presented. There were no changes in reserves of the parent company during the year (2007: none).

Consolidated balance sheet as at 31 March 2008

	Note	2008 £m	2007 £m
Assets			
Non-current assets			
Property, plant and equipment	7	2,893.4	2,846.9
Intangible assets	6	25.1	7.0
Investments	8a	-	-
Financial assets:			
- derivative financial instruments	13	2.5	14.7
Retirement benefit obligations	19	2.0	-
		2,923.0	2,868.6
Current assets			
Trade and other receivables	9	118.3	92.8
Financial assets:			
- derivative financial instruments	13	6.9	4.2
Cash and cash equivalents	10	124.1	158.0
		249.3	255.0
Liabilities			
Current liabilities			
Trade and other payables	11	(123.9)	(103.9)
Financial liabilities:			
- borrowings	12	(25.1)	(65.8)
- derivative financial instruments	13	(3.3)	(38.8)
		(152.3)	(208.5)
Net current assets		97.0	46.5
Non-current liabilities			
Trade and other payables	11	(2.3)	(2.5)
Financial liabilities:			
- borrowings	12	(2,623.4)	(2,520.0)
- derivative financial instruments	13	(77.4)	(36.0)
Retirement benefit obligations	19	-	(5.5)
Provisions	15	(8.5)	(8.6)
		(2,711.6)	(2,572.6)
Net assets before deferred tax		308.4	342.5
Deferred tax	5b	(350.1)	(388.4)
Net liabilities		(41.7)	(45.9)
Reserves			
Retained deficit		(41.7)	(45.9)
Total reserves		(41.7)	(45.9)

The financial statements were approved by the Board of directors on 6 June 2008 and were signed on its behalf by:



N C Annett
Managing Director



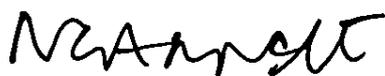
C A Jones
Finance Director

PRIMARY STATEMENTS

Parent company balance sheet as at 31 March 2008

	Note	2008 £m	2007 £m
Assets			
Non-current assets			
Investment in subsidiaries	8b	-	-
Trade and other receivables	9b	3.4	3.4
		3.4	3.4
Current assets			
Cash and cash equivalents	10	0.1	0.1
		0.1	0.1
Liabilities			
Current liabilities			
Trade and other payables	11	(3.5)	(3.5)
Net assets			
		-	-
Reserves			
Retained earnings		-	-
Total reserves			
		-	-

The financial statements were approved by the Board of directors on 6 June 2008 and were signed on its behalf by:



N C Annett
Managing Director



C A Jones
Finance Director

Consolidated cash flow statement for the year ended 31 March 2008

	Note	2008 £m	2007 £m
Cash generated from operations	16a	268.8	245.6
Interest received		11.0	7.1
Interest paid	16b	(212.3)	(73.7)
Net cash inflow from operating activities		67.5	179.0
Cash flows from investing activities			
Purchase of property, plant and equipment		(190.9)	(188.7)
Grants and contributions received		17.7	22.5
Proceeds from sale of property, plant and equipment		0.8	-
Net cash used in investing activities		(172.4)	(166.2)
Net cash (outflow)/inflow before financing activities		(104.9)	12.8
Cash flows from financing activities			
Long term loans and finance leases received		85.0	32.2
Revolving credit facility and term loan repayments		(4.4)	(45.3)
Bonds issued		-	150.0
Capital element of finance lease payments		(9.3)	(5.5)
Reduction in financial assets		-	0.3
Other loan repayments		(0.3)	(0.5)
Net cash generated from financing activities		71.0	131.2
(Decrease)/increase in net cash	17	(33.9)	144.0
Net cash at 1 April		158.0	14.0
Net cash at 31 March	10	124.1	158.0

The parent company had no cash flows during the year (2007: none).

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies, financing risk management and accounting estimates**Basis of Preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 1985 applicable to reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments to fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the amended Companies Act 1985.

IFRS 7, "Financial Instruments: disclosures", and the complementary amendment to IAS 1, "Presentation of Financial Statements – capital disclosures", have been adopted in the year to 31 March 2008 (and comparatives included accordingly). IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classifications or valuations within the group's financial statements.

At the date of approval of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IAS 1	Presentation of Financial Statements (revision)
IAS 23	Borrowing Costs (revision)
IAS 24	Related Party Disclosures (revision)
IFRS 8	Operating Segments
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group in the period of initial application.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiaries. The results of companies and businesses acquired during the year are dealt with in the consolidated financial statements from the date of acquisition. Intra-group transactions and profits are eliminated on consolidation.

Accounting policies for the year ended 31 March 2008

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

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. See the critical accounting estimates section for further details.

Revenue recognised reflects the actual charges levied on customers in the year. The difference between the actual revenue and the level of revenue that could have resulted had the full Ofwat allowed level of charges been levied is referred to as a 'customer dividend'.

Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs but excluding interest.

Property, plant and equipment comprise:

- (i) infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- (ii) other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

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.

Infrastructure assets

Infrastructure assets comprise principally of 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**

Leasehold properties: **over the lease period**

Operational structures: **40 – 80 years**

Fixed plant: **8-40 years**

Vehicles, mobile plant, equipment and computer hardware & software: **3-16 years**

Assets in the course of construction are not depreciated until commissioned.

Intangible assets

Intangible assets, which comprise principally computer software and system developments, are included at cost less accumulated depreciation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs but excluding interest.

The carrying values of intangible assets are reviewed for impairment if circumstances dictate the carrying value may not be recovered.

Intangible assets are depreciated on a straight line basis over their estimated useful economic lives, which range between 3 and 15 years. These asset lives are reviewed annually.

Leased assets

Where assets are financed by leasing arrangements, which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are capitalised and included in 'property, plant and equipment' with the corresponding liability to the lessor included within 'financial liabilities – borrowings'. Leasing payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor with the finance charge being 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.

All other leases are regarded as operating leases. Rental costs arising under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Asset revaluations

The economic value of the group's water and sewerage business is derived from the regulatory capital value (RCV) set by Ofwat during its five yearly price reviews. Accordingly, the carrying values of the regulatory assets will be revalued periodically to their economic values at five-yearly intervals, starting on 31 March 2010. The previous revaluation of regulatory assets was undertaken at 31 March 2004.

Grants and customer contributions

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against fixed 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 fixed asset 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 only recognised on completed projects.

Target cost contracts

The group maintains target cost contracts with its main operating partners. The group's policy in respect of pain/gain share payments/receivables arising from these contracts is to recognise when final agreement with the relevant service partner has been achieved.

Trade receivables and their impairment

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not individually significant. 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 collectively assessed for impairment based on their ageing. 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, less any overdrafts.

Pension costs

A majority of the group's employees belongs to the group's defined benefit pension scheme, which is funded by both employer's and employees' contributions. Actuarial valuations of the scheme are carried out at intervals of not more than three years. Contribution rates are based on the advice of a professionally qualified actuary.

The net asset or liability recognised in the balance sheet represents the present value of the defined benefit obligations less the fair value of the plan's assets.

The full cost of providing pension benefits to employees (including the expected return on scheme assets and interest on scheme liabilities) is reported in the Income Statement within operating costs. All actuarial gains and losses are also recognised in the year in which they arise in determining the profit or loss for the year.

The group also operates a defined contribution scheme for those employees who are not members of the defined contribution scheme. Obligations for contributions to the scheme are recognised as an expense in the Income Statement in the period in which they arise.

Financial liabilities

Debt is initially measured at fair value, which is the amount of the 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.

NOTES TO THE FINANCIAL STATEMENTS

Financial assets

Financial assets represent held to maturity investments that are non-derivative, with fixed or determinable payments and fixed maturities of over three months at the date of acquisition, which the group intends to hold until maturity.

Derivative financial instruments

Derivative instruments utilised by the group are interest rate, inflation and currency swaps. 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 2008, none of the group's derivatives qualified for hedge accounting under IAS 39 (2007: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Deferred taxation

Deferred corporation tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised in respect of all temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable. They are regarded as recoverable where, on the basis of available evidence, there will be suitable taxable profits against which the future reversal of the underlying temporary differences can be deducted. The carrying value of the amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the asset to be utilised.

Deferred corporation tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates that have been substantially enacted at the balance sheet date (2008: 28%, 2007: 30%).

Provisions

Provision is made for all known and estimated liabilities of the group where there is a present obligation and it is probable that a transfer of economic benefits will be required to settle the obligation.

In the case of leases, where properties are no longer occupied by the group, provision is made for the liabilities that are expected to arise in respect of rental payments and dilapidations, prior to disposal or termination of the lease.

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.

Financial risk management objectives and policies

Treasury activities are managed within a formal set of treasury policies and objectives, which are reviewed regularly and approved by the Board. The policy specifically prohibits any transactions of a speculative nature and the use of complex financial instruments. Certain detailed policies for managing interest rate, currency and inflation risk and that for managing liquidity risk are approved by the Board and may only be changed with the consent of Dŵr Cymru Cyfyngedig's security trustee (the 'Security Trustee'). The risk is further mitigated by limiting exposure to any one counterparty. We use financial instruments, which principally include listed bonds, finance leases, bank loan facilities and derivatives, to raise finance and manage risk from our operations.

Credit risk

The group has a prudent policy for investing cash and short term bank deposits ("cash investments"). Counterparties for cash investments must meet minimum short term and/or long term credit ratings as published by Standard & Poor's ("S&P"), Moody's Investor Service Limited ("Moody's") and Fitch Ratings Limited ("Fitch"). The minimum short term rating, for cash deposits of up to one year, is A1/P1/F1 and the minimum long term rating, for cash deposits over one year, is AA-/A3/AA- each for S&P, Moody's and Fitch respectively.

The Board reviews counterparties for cash investments and the credit limit assigned to each annually.

During the year, the group has decided to temporarily tighten its credit criteria for investing cash deposits as a response to the situation in the banking market. In consequence, all new cash investments must meet the minimum long term rating and have a maximum investment period of three months. As at 31 March 2008, all cash investments met these new criteria, with the exception of pre-existing cash deposits amounting to £0.5m with a bank counterparty which met the short term rating criteria but had a long term rating of A/Aa2/A with S&P, Moody's and Fitch respectively. The maximum cash investment with a single counterparty was £24.8m (2007: £27.0m).

Interest rate and currency risk

The group hedges at least 85% of its total outstanding financial liabilities, including finance leases, 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. Subject to market constraints and Board approval, the group therefore may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £2,649m as at 31 March 2008 (2007: £2,586m), only £162m related to floating rate debt (2007: £141m). The group, therefore, considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2008, 94% (2007: 95%) 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 specific requirements of IAS 39 in order to be treated as hedges for accounting purposes.

The group minimises exposure to currency risk in respect of any foreign currency denominated borrowings by using appropriate derivative instruments to hedge these liabilities into sterling obligations. There were no foreign currency borrowings as at 31 March 2008 (2007: £nil).

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 currencies, instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,649m can fall due in any 24 month period.

Liquidity risk

We maintain committed banking facilities in order to provide flexibility in the management of the group's liquidity.

Under the Common Terms Agreement which governs the group's obligations to its bond holders and other financial creditors, the group is required to have cash available to fund operations for a duration of 18 months. As at 31 March 2008, the group had committed undrawn borrowing facilities of £345m (2007: £345m) and cash and cash equivalents (excluding debt service payments account) of £112m (2007: £106m).

There is also a special liquidity facility of £150m; this is required in order to meet certain interest and other obligations that cannot be funded through operating cashflow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants.

Capital risk management

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 (RCV) as determined by Ofwat.

The Board considers that it is in the best long-term interests of Welsh Water's customers to continue to reduce the level of gearing, with a view to achieving further reductions in its cost of finance. The Board intends to reduce gearing to around 70% and to keep it at that level going forward. The Board believes that this can be achieved whilst maintaining the current progressive 'customer dividend' policy.

In respect of the risks detailed above, further quantitative disclosures are provided in note 14.

Critical accounting estimates

The preparation of financial statements to conform to generally accepted accounting principles 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 the cash flows that are expected. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability

of a failure to recover amounts when they fall into arrears. The probability of failing to recover is determined by past experience, adjusted for changes in external factors. 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 £4.3 million (2007: £3.7 million).

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, which is 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 would increase or reduce by £0.8 million (2007: £0.8 million).

Measured income accrual

Revenue includes an estimation of charges unbilled at the period-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated based upon historical billing information adjusted for changes in external factors, such as weather. A 5% change in actual consumption from that estimated would have the effect of increasing/decreasing the accrual by £2.8 million (2007: £2.3 million).

NOTES TO THE FINANCIAL STATEMENTS

2. Segmental information

The directors consider that there is only one reporting segment, being the operation of water and sewerage business in the UK. Therefore the disclosures for the primary segment have already been given in these financial statements.

The secondary reporting format is by geographical analysis by origin and destination. As the group has only domestic activities there is only one geographical segment; therefore, the disclosures for the secondary segment have also already been given in these financial statements.

Parent company

The parent company's business is solely to act as a holding company and therefore it operates in a single segment.

3. Financing costs**a) Net interest before fair value losses on financial instruments**

	GROUP	
	2008	2007
	£m	£m
Interest payable on bonds	(83.9)	(83.0)
Indexation on index-linked bonds	(30.4)	(23.0)
Interest payable on finance leases	(45.7)	(33.8)
Other loan interest	(8.3)	(8.5)
Other interest payable and finance costs	(2.5)	(10.2)
Amortisation of bond issue costs	(0.7)	(0.7)
Interest payable	(171.5)	(159.1)
Interest receivable	12.2	7.4
Net interest payable before fair value adjustments	(159.3)	(151.7)

b) Fair value (losses)/gains on financial instruments

Whilst the group employs an economically effective policy using interest rate and index-linked swaps, this policy does not satisfy the hedge accounting criteria of IAS 39. Consequently, the group's interest rate and index-linked swaps are fair valued at each balance sheet date with the movement (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 13 for balance sheet note in respect of derivative financial instruments.)

	GROUP	
	2008	2007
	£m	£m
Fair value (losses)/gains on interest rate swaps	(4.0)	34.9
Fair value (losses)/gains on index-linked swaps	(43.9)	10.8
Total fair value (losses)/gains on financial instruments	(47.9)	45.7
Deferred tax effect at 28% (2007: 30%) of fair value (losses)/gains	13.4	(13.7)
Net of tax impact of fair value (losses)/gains	(34.5)	32.0

During the year to 31 March 2008, swaps with a nominal value of £433m were closed out with a payment of £32.5m.

4. (Loss)/profit before taxation

The following items have been included in arriving at the (loss)/profit before taxation:

	GROUP	
	2008	2007
	£m	£m
Operating charges from outsourced activities:		
- Operating services agreements	116.1	115.9
- Customer services agreement	19.0	18.6
- Laboratories and analytical services	6.3	7.6
- Other contracts	13.9	14.2
	155.3	156.3
Employee costs (note 18)		
- Wages and salaries	9.2	8.0
- Social security	1.0	0.9
- Severance programme and other termination costs	-	0.2
- Net actuarial (gain)/loss (note 19)	(3.3)	0.9
- Pension costs (excluding actuarial gain/loss)	1.6	1.7
Research and development expenditure	0.5	0.4
Trade receivables impairment	13.4	11.0
Rates	24.1	21.0
Environment agency charges	14.3	13.5
Fees paid to auditors (see below)	0.2	0.2
Staff costs capitalised	(5.2)	(4.7)
Other operating charges	19.7	19.2
	230.8	228.6
Depreciation of property, plant and equipment:		
- Owned assets	81.2	75.1
- Under finance leases	40.2	35.0
Amortisation of intangible assets	0.9	1.7
Infrastructure renewals expenditure	97.5	84.1
Profit on disposal of fixed assets	(0.8)	-
	449.8	424.5

Services provided by the group's auditor

During the year, the group obtained the following services from the group's auditor as detailed below:

	GROUP	
	2008	2007
	£'000	£'000
Audit of parent company and consolidated financial statements	11	11
Other services:		
- Subsidiary company audit services	72	69
- Regulatory audit services pursuant to legislation	29	49
- Tax advisory services	27	1
- Interim review	20	20
- Bond issue	-	24
- Other	4	3
	165	177

Regulatory audit services include work on the Regulatory Accounts, June Return and Principal Statement.

NOTES TO THE FINANCIAL STATEMENTS

In addition to the above services, PricewaterhouseCoopers LLP acted as auditor to the Welsh Water Pension Scheme. The appointment of auditors to the pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The fees paid in respect of audit services to the pension scheme during the year were £11,000 (2007: £7,000).

The Board has adopted a formal policy with respect to services received from external auditors. The external auditor will not be used for internal audit services and all non-audit work above a threshold of £25,000 will be subject to prior competitive tendering and approval by the Audit Committee.

5. Taxation

a) Taxation credit/(charge)

Analysis of credit/(charge) in the year

	GROUP	
	2008	2007
	£m	£m
Current tax		
- Adjustment in respect of prior years	-	-
Deferred tax		
- Current year movements	9.2	(15.9)
- Adjustment in respect of prior years	3.4	1.7
- Effect of tax rate change	25.7	-
Taxation credit/(charge)	38.3	(14.2)

The 21 March 2007 budget report announced that a reduction in the main rate of corporation tax, from 30% to 28%, would be effective from 6 April 2008. The deferred tax calculations therefore take into account this reduction, resulting in a release of £25.7m to the Income Statement during the year to 31 March 2008.

The effective rate of tax for the year is lower (2007: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	GROUP	
	2008	2007
	£m	£m
(Loss)/profit before tax	(34.1)	47.5
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 30% (2007: 30%)	(10.2)	14.3
Effects of:		
Expenses not deductible for tax purposes	-	0.1
Adjustments in respect of prior years	(3.9)	(1.7)
Other permanent differences	0.4	1.5
Effect of tax rate change	(24.6)	-
Total taxation (credit)/charge	(38.3)	14.2

b) Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007: 30%)

The movement in the deferred tax provision is as shown below:

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
At 1 April	388.4	374.2	-	-
(Credited)/charged to Income Statement	(38.3)	14.2	-	-
At 31 March	350.1	388.4	-	-

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.

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Effect of tax allowances in excess of depreciation	395.1	429.4	-	-
Other tax differences	(45.0)	(41.0)	-	-
Provision for deferred tax	350.1	388.4	-	-

The proposed abolition of Industrial Building Allowances is not reflected in these financial statements, but it is anticipated that this will result in a significant increase in the deferred tax provision.

6. Intangible assets

Intangible assets comprise computer software and related system developments.

GROUP	Cost £m	Amortisation £m	Net book value £m
Current Year			
At 1 April 2007	57.7	(50.7)	7.0
Additions	19.0	-	19.0
Charge for the year	-	(0.9)	(0.9)
At 31 March 2008	76.7	(51.6)	25.1
Prior Year			
At 1 April 2006	53.4	(49.0)	4.4
Additions	4.3	-	4.3
Charge for the year	-	(1.7)	(1.7)
At 31 March 2007	57.7	(50.7)	7.0

The net book value of intangible assets includes £19.0m in respect of assets in the course of construction (2007: £nil).

The parent company owns no intangible fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

7. Property, plant and equipment

GROUP	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant equipment, computer hardware £m	Total £m
Current year					
Cost					
At 1 April 2007	32.9	1,412.7	2,118.1	218.2	3,781.9
Additions net of grants and contributions	0.1	133.7	114.4	4.7	252.9
Disposals	-	(89.0)	-	-	(89.0)
At 31 March 2008	33.0	1,457.4	2,232.5	222.9	3,945.8
Accumulated depreciation					
At 1 April 2007	15.9	71.2	691.1	156.8	935.0
Charge for the year	0.4	31.6	81.8	7.6	121.4
Released on disposal	-	(4.0)	-	-	(4.0)
At 31 March 2008	16.3	98.8	772.9	164.4	1,052.4
Net book value					
At 31 March 2008	16.7	1,358.6	1,459.6	58.5	2,893.4

The net book value of property, plant and equipment includes £158.1m in respect of assets in the course of construction (2007: £157.6m).

GROUP	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant equipment, computer hardware £m	Total £m
Prior year					
Cost					
At 1 April 2006	32.7	1,375.2	2,055.0	193.2	3,656.1
Additions net of grants and contributions	0.2	37.5	128.0	25.0	190.7
Disposals	-	-	(64.9)	-	(64.9)
At 31 March 2007	32.9	1,412.7	2,118.1	218.2	3,781.9
Accumulated depreciation					
At 1 April 2006	15.5	39.8	654.6	150.6	860.5
Charge for the year	0.4	31.4	72.1	6.2	110.1
Disposals	-	-	(35.6)	-	(35.6)
At 31 March 2007	15.9	71.2	691.1	156.8	935.0
Net book value					
At 31 March 2007	17.0	1,341.5	1,427.0	61.4	2,846.9

Assets held under finance leases

Included within the above are assets held under finance leases, analysed as below:

GROUP	Infrastructure assets £m	Operational structures £m	Total £m
Current year			
Cost			
At 1 April 2007	526.8	598.1	1,124.9
Additions	85.0	-	85.0
At 31 March 2008	611.8	598.1	1,209.9
Accumulated depreciation			
At 1 April 2007	36.7	154.5	191.2
Charge for the year	7.2	33.0	40.2
At 31 March 2008	43.9	187.5	231.4
Net book value			
At 31 March 2008	567.9	410.6	978.5
GROUP	Infrastructure assets £m	Operational structures £m	Total £m
Prior year			
Cost			
At 1 April 2006	526.8	565.9	1,092.7
Additions	-	32.2	32.2
At 31 March 2007	526.8	598.1	1,124.9
Accumulated depreciation			
At 1 April 2006	30.1	126.1	156.2
Charge for the year	6.6	28.4	35.0
At 31 March 2007	36.7	154.5	191.2
Net book value			
At 31 March 2007	490.1	443.6	933.7

The parent company owns no property, plant or equipment.

NOTES TO THE FINANCIAL STATEMENTS

8. Fixed asset investments**(a) Group**

Cost and net book value	2008 £m	2007 £m
At 1 April and 31 March	-	-

Equity of less than 10% is held in the following unlisted company:

	Principal activity	Country of incorporation	Holding
Water Research Centre (1989) Plc	Water research	England and Wales	'B' Ordinary Shares of £1

In addition, the group holds 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) plc.

(b) Parent Company

The company has a £1 investment in Glas Cymru (Securities) Cyfyngedig and has indirect investments in the following subsidiary undertakings:

	Principal activity	Country of incorporation	Holding
Dŵr Cymru (Holdings) Limited	Holding company	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	England and Wales	100%
Dŵr Cymru (Financing) Limited	Raising finance	Cayman Islands	100%
Welsh Water Utilities Finance Plc	Raising finance	England and Wales	100%

9. Trade and other receivables

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
(a) Amounts falling due within one year:				
Trade receivables	101.0	87.1	-	-
Less provision for impairment of receivables	(58.8)	(53.0)	-	-
Trade receivables - net	42.2	34.1	-	-
Prepayments and accrued income	62.9	53.5	-	-
Other receivables	13.2	5.2	-	-
	118.3	92.8	-	-
(b) Amounts falling due after more than one year:				
Amounts owed by group undertakings	-	-	3.4	3.4
	118.3	92.8	3.4	3.4

All non-current receivables are due within five years from the balance sheet date.

As at 31 March 2008, it was considered that £58.8m of trade receivables were impaired and these have therefore been provided for (2007: £53.0m). The impaired receivables mainly relate to measured and unmeasured water supply debtors.

The ageing of receivables was as follows:

2008	Total £m	Provided for £m	Net £m
Trade receivables			
Under one month	14.2	3.4	10.8
Between one and six months	18.7	7.1	11.6
Between six months and one year	17.3	6.2	11.1
Between one and two years	20.9	14.3	6.6
Between two and three years	13.3	11.2	2.1
Over three years	16.6	16.6	-
	101.0	58.8	42.2

As of 31 March 2008, all net trade receivables aged over one month (2008: £31.4m, 2007: £24.3m) were past due but not considered impaired, based on a review of cash collection rates.

2007	Total £m	Provided for £m	Net £m
Trade receivables			
Under one month	12.6	2.8	9.8
Between one and six months	9.4	3.6	5.8
Between six months and one year	20.9	8.0	12.9
Between one and two years	18.2	12.6	5.6
Between two and three years	9.6	9.6	-
Over three years	16.4	16.4	-
	87.1	53.0	34.1

Movements on the provision for impairment of trade receivables are as follows:

	2008 £m	2007 £m
At 1 April	53.0	49.6
Charge to Income Statement	13.0	10.4
Receivables written off during the year as uncollectable	(7.2)	(7.0)
At 31 March	58.8	53.0

The creation and release of provision for impaired receivables have been included in operational expenditure in the income statement.

The other classes within trade and other receivables do not contain impaired assets. All trade and other receivables are denominated in sterling.

NOTES TO THE FINANCIAL STATEMENTS

10. Cash and cash equivalents

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash at bank and in hand	2.9	3.8	0.1	0.1
Short-term bank deposits	121.2	154.2	-	-
	124.1	158.0	0.1	0.1

The effective interest rate on short-term deposits as at 31 March 2008 was 5.5% (2007: 5.4%) and these deposits have an average maturity of 13 days (2007: 30 days). All cash and cash equivalents were held in sterling.

11. Trade and other payables

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Current				
Trade payables	16.1	12.3	-	-
Capital payables	55.6	41.9	-	-
Amounts due to group undertakings	-	-	3.5	3.5
Other taxation and social security	0.4	0.3	-	-
Accruals and deferred income	51.8	49.4	-	-
	123.9	103.9	3.5	3.5
Non-current				
Deferred income	2.3	2.5	-	-

12. Financial liabilities – borrowings

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Current				
Interest accruals	12.4	56.4	-	-
European Investment Bank loan	4.4	4.4	-	-
Local Authority loans	0.3	0.3	-	-
Finance lease obligations	8.0	4.7	-	-
	25.1	65.8	-	-
Non-current				
Interest accruals	29.7	24.6	-	-
Bonds	1,623.0	1,592.7	-	-
Unamortised bond premium	12.9	13.4	-	-
Unamortised bond issue costs	(5.6)	(6.3)	-	-
European Investment Bank loan	126.3	130.6	-	-
Local Authority loans	2.6	2.9	-	-
Finance lease obligations	834.5	762.1	-	-
	2,623.4	2,520.0	-	-

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the group's bond programme for the benefit of holders of senior bonds, finance lessors and other senior financial creditors.

The obligations of DCC are guaranteed by the company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

- i) a first fixed and floating security over all of DCC's assets and undertaking, to the extent permitted by the Water Industry Act, other applicable law and its licence; and
- ii) a fixed and floating security given by the guarantors referred to above which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

The group's Class A Bonds benefit from a guarantee from MBIA Assurance SA. On 7 April 2008 Fitch Ratings downgraded the ratings of MBIA and, in consequence, the group's Class A Bonds, from AAA to AA. The ratings of the group's Class B and C Bonds were unaffected by this review and remain stable. Similarly, on 5 June 2008, Standard & Poor's also downgraded the ratings of MBIA and, in consequence, the group's Class A bonds from AAA to AA.

13. Derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. As such, movements in their fair value are taken to the Income Statement (see note 3b).

GROUP - 2008	FAIR VALUES	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	6.9	(1.4)
Interest rate swaps	-	(1.9)
	6.9	(3.3)
Non-current		
Index-linked swaps	2.5	(52.3)
Interest rate swaps	-	(25.1)
	2.5	(77.4)
Total	9.4	(80.7)

GROUP - 2007	FAIR VALUES	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	4.2	(4.6)
Interest rate swaps	-	(34.2)
	4.2	(38.8)
Non-current		
Index-linked swaps	14.7	(14.7)
Interest rate swaps	-	(21.3)
	14.7	(36.0)
Total	18.9	(74.8)

In accordance with IAS 39, 'Financial instruments: Recognition and measurement', 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 the standard. The group has no embedded derivatives as per IAS 39.

NOTES TO THE FINANCIAL STATEMENTS

Parent Company

The parent company has no derivative financial instruments or embedded derivatives.

Interest rate swaps

At 31 March 2008 the interest rate swaps fix the interest rate on £192 million (2007: £625 million) of floating rate liabilities held by the group. The maturity date of the swap is 31 March 2031 and the quarterly fixed interest rate is 5.67%.

In addition £571 million (2007: £nil) of finance lease liabilities are converted from 3 month to 12 month floating for a period of one year; the swaps expire on 31 March 2009.

Index-linked swaps

Finance lease swaps

The index-linked swaps have the effect of index-linking the interest rate on £622 million (2007: £626 million) of finance lease liabilities by reference to the retail price index ('RPI').

The notional amount of the swaps as at 31 March 2008 is £571 million (2007: £579 million), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2009. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases. These swaps are matched against the same liabilities as the finance lease interest rate swaps noted above.

The principal terms are as follows:

Notional Amount: £571 million (amortising)
 Average swap maturity: 24 years
 Average interest rate: 1.64% (fixed) plus RPI

Bond swap

The index-linked swaps have the effect of index-linking the interest rate on £100 million of fixed rate bonds by reference to the RPI.

The principal terms are as follows:

Indexed notional Amount: £105.7 million
 Swap maturity: 49 years
 Interest rate: 1.35% (indexed by RPI)

14. Financial risk management

The policies of the group in respect of financial risk management are included in the accounting policies note on page 54. 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:

	2008	2007
Assets:		
Cash and cash equivalents	5.5%	5.4%
Liabilities:		
Bonds	5.5%	5.4%
European Investment Bank loans	6.1%	5.6%
Local Authority loans	5.8%	6.5%
Finance lease obligations	5.6%	4.5%

Trade and other receivables and payables are not interest-bearing.

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 13. They also exclude the indexation charge applicable to the index-linked bonds.

b) Liquidity risk

GROUP - 2008	Within 1yr £m	1- 2 years £m	2-5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	124.1	-	-	-	124.1
Trade and other receivables	118.3	-	-	-	118.3
	242.4	-	-	-	242.4
Liabilities:					
Bonds	-	-	125.0	1,510.9	1,635.9
European Investment Bank loan	4.4	4.4	35.9	86.0	130.7
Local Authority loans	0.3	0.3	1.0	1.3	2.9
Finance lease obligations	8.0	7.0	33.1	794.4	842.5
Trade and other payables	123.9	0.3	0.3	1.7	126.2
	136.6	12.0	195.3	2,394.3	2,738.2

GROUP - 2007	Within 1yr £m	1- 2 years £m	2-5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	158.0	-	-	-	158.0
Trade and other receivables	92.8	-	-	-	92.8
	250.8	-	-	-	250.8
Liabilities:					
Bonds	-	-	125.0	1,481.1	1,606.1
European Investment Bank loan	4.4	4.4	26.8	99.4	135.0
Local Authority loans	0.3	0.4	1.1	1.4	3.2
Finance lease obligations	4.7	5.8	24.9	731.4	766.8
Trade and other payables	103.9	0.4	1.1	1.0	106.4
	113.3	11.0	178.9	2,314.3	2,617.5

As at 31 March 2008 and 31 March 2007, the Bonds maturing between 2-5 years represent £125 million of subordinated Bonds with an expected maturity date of 31 March 2011. If these Bonds are not redeemed on or before 31 March 2011, the interest rate will step-up from a fixed rate of 8.174% to a floating 3 month LIBOR interest rate plus a margin of 5.75%.

The minimum lease payments under finance leases fall due as follows:

	2008 £m	2007 £m
Not later than one year	55.5	39.4
Later than one year but not more than five	194.4	180.2
More than five years	1,436.8	1,336.1
	1,686.7	1,555.7
Future finance charges on finance leases	(806.8)	(763.5)
Present value of finance lease liabilities (including accrued interest)	879.9	792.2

NOTES TO THE FINANCIAL STATEMENTS

c) Fair values

The fair values of the group's derivative financial instruments are set out in note 13. The following table summarises the fair value and book value of the group's bonds.

	2008		2007	
	Book value £m	Fair Value £m	Book Value £m	Fair Value £m
Bonds (note 12)	1,635.9	1,778.3	1,606.1	1,875.1

The fair values of all other financial instruments are equal to the book values.

d) Borrowing facilities

As at 31 March 2008, the group had available undrawn committed borrowing facilities of £345m expiring in more than one year, in respect of which all conditions precedent had been met (2007: £345m).

Dŵr Cymru (Financing) Limited also has a special liquidity facility of £150 million, which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cashflow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. Dŵr Cymru Cyfyngedig also has a £20 million overdraft facility. Both of these facilities are renewable on an annual basis.

All of the above facilities, including the liquidity facility, are at floating rates of interest.

e) Capital risk management

Gearing ratios

	2008 £m	2007 £m
Total borrowings	2,649	2,586
Less: cash and cash equivalents	(124)	(158)
Net debt	2,525	2,428
RCV	3,529	3,310
Total capital	1,004	882
Less unamortised bond costs	(6)	(6)
Total capital per bond covenants	998	876
Gearing ratio	72%	74%

As set out on page 55, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV. The decrease in the gearing ratio during the year to 31 March 2008 is the result of increases in the RCV exceeding the rise in net debt.

15. Provisions

GROUP	Restructuring provision £m	Uninsured loss provision £m	Total £m
At 1 April 2007	1.1	7.5	8.6
Charged to Income Statement	0.1	1.2	1.3
Utilised in year	-	(1.4)	(1.4)
At 31 March 2008	1.2	7.3	8.5

The parent company has no provisions at 31 March 2008 (2007: nil).

Restructuring provision

This provision is in respect of payments to be made relating estimated dilapidation costs, which will be utilised over the next three years.

Provision for uninsured losses

This provision is in respect of uninsured losses and where insurance cover does not cover a deductible amount. The utilisation period of these liabilities is uncertain due to the nature of the claims, but is estimated to be five years.

16. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	GROUP	
	2008 £m	2007 £m
Operating profit	173.1	153.5
Adjustments for:		
Depreciation and amortisation	122.3	111.8
Profit on disposal of fixed assets	(0.8)	-
Changes in working capital:		
Increase in trade and other receivables	(24.3)	(3.4)
Increase/(decrease) in trade and other payables	6.1	(14.0)
Decrease in retirement benefit obligation	(7.5)	(1.1)
Decrease in provisions	(0.1)	(1.2)
Cash generated from operations	268.8	245.6

NOTES TO THE FINANCIAL STATEMENTS

b) Interest paid

	GROUP	
	2008 £m	2007 £m
Interest payable per income statement	171.5	159.1
Swap termination payment	32.5	-
Less non-cash items:		
Indexation	(30.4)	(23.0)
Amortisation of bond costs	(0.7)	(0.7)
Amortisation of bond issue premium	0.5	0.5
Decrease/(increase) in accruals	38.9	(62.2)
Interest paid	212.3	73.7

31 March 2007 fell on a Saturday and in consequence a majority of the annual finance lease and bond interest payments in respect of the year ended 31 March 2007 were due and actually paid on 2 April 2007, i.e. during the current year.

31 March 2008 was a Monday and all annual finance lease and bond interest payments due for the year were made by this date. A further £32.5m was paid in April 2007 on termination of swaps no longer required. As a result, interest paid in 2008 is significantly higher than in 2007.

17. Analysis and reconciliation of net debt

a) Net debt at the balance sheet date may be analysed as:

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash and cash equivalents	124.1	158.0	0.1	0.1
Debt due after one year	(1,764.8)	(1,739.6)	-	-
Debt due within one year	(4.7)	(4.7)	-	-
Finance leases	(842.5)	(766.8)	-	-
Accrued interest	(42.1)	(81.0)	-	-
Unamortised bond issue costs	5.6	6.3	-	-
	(2,648.5)	(2,585.8)	-	-
Net debt	(2,524.4)	(2,427.8)	0.1	0.1

b) The movement in net debt during the period may be summarised as:

	GROUP		COMPANY	
	2008 £m	2007 £m	2008 £m	2007 £m
Net debt at of start period	(2,427.8)	(2,355.2)	0.1	0.1
(Decrease)/increase in net cash	(33.9)	144.0	-	-
Decrease in financial assets	-	(0.3)	-	-
Increase in debt	(71.0)	(130.9)	-	-
(Increase)/decrease in net debt arising from cashflows	(104.9)	12.8	-	-
Movement in accrued net interest	38.9	(62.0)	-	-
Indexation of index-linked debt	(30.4)	(23.0)	-	-
Other non-cash movements	(0.2)	(0.4)	-	-
Movement in net debt during the period	(96.6)	(72.6)	-	-
Net debt at end of period	(2,524.4)	(2,427.8)	0.1	0.1

18. Employees and directors

a) Staff costs for the group during the year

	2008 £m	2007 £m
Wages and salaries	9.2	8.0
Severance and termination costs	-	0.2
Social security costs	1.0	0.9
Other pension costs	(1.7)	2.6
	<hr/> 8.5	<hr/> 11.7

Of the above, £5.2 million (2007: £4.7 million) has been charged to capital. Other pension costs include £nil (2007: £0.4m) in respect of the directors' unfunded pension liabilities and an actuarial gain on the defined benefit scheme for the year of £3.3m (2007: loss of £0.9m).

	2008 Number	2007 Number
Average monthly number of people (including executive directors) employed by the group		
Regulated water and sewerage activities	<hr/> 173	<hr/> 159

b) Parent Company

The parent company had no employees (2007: nil) in the year. Full details of the Directors' remuneration are included in the Directors' Remuneration Report set out on pages 40 – 45, which forms part of these Financial Statements.

19. Pension commitments

The group operates a funded defined benefit pension scheme for current employees (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 the 31 December 2005 and a new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from the 1 January 2006.

Total pension costs in the year were as follows:

	2008 £'000	2007 £'000
Defined contribution scheme	591	150
Defined benefit scheme – excluding actuarial (gains)/losses	1,065	1,518
	<hr/> 1,656	<hr/> 1,668
Net actuarial (gains)/losses recognised in year	(3,339)	921
	<hr/> (1,683)	<hr/> 2,589

The total credit of £1.683m (2007: charge of £2.589m) is included within operating costs.

NOTES TO THE FINANCIAL STATEMENTS

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2006 by Robert Davies of Quantum Advisory, an independent, professionally qualified actuary, using the attained age method. This valuation was updated at 31 March 2008 and the principal assumptions made by the actuaries were:

	2008	2007
Rate of increase in pensionable salaries	4.0%	4.0%
Rate of increase in pensions in payment	3.0%	3.0%
Discount rate	6.3%	5.4%
Inflation assumption	3.0%	3.0%
Life expectancy of a 65 year old woman at 31 March	87.9 years	87.8 years
Life expectancy of a 65 year old man at 31 March	84.8 years	84.9 years

Life expectancy assumptions are based on those in published actuarial tables 'PA92' projected to 2020.

The major categories of plan assets, as a percentage of total assets and the expected rates of return thereon, were as follows:

	2008		2007	
	Expected long term return	Percentage of total assets	Expected long term return	Percentage of total assets
Equities	7.0%	59.5%	7.0%	57.0%
Bonds	6.0%	38.5%	5.5%	36.0%
Other	4.5%	2.0%	4.5%	7.0%

Pensions and other post-retirement obligations

The amounts recognised in the income statement are as follows:

	2008 £'000	2007 £'000
Current service cost (excluding member contributions)	1,074	1,083
Interest cost	2,273	1,927
Expected return on plan assets	(2,407)	(1,858)
Past service cost	125	366
Total excluding net actuarial (gains)/losses	1,065	1,518
Net actuarial (gains)/losses recognised in year	(3,339)	921
Total included within staff costs	(2,274)	2,439

The amounts recognised in the balance sheet are determined as follows:

	2008 £'000	2007 £'000
Present value of funded obligations	(36,739)	(41,009)
Fair value of plan assets	38,786	35,520
Net asset/(liability) recognised in the balance sheet	2,047	(5,489)

Changes in the present value of the defined benefit obligation are as follows:

	2008 £'000	2007 £'000
At 1 April	41,009	37,197
Current service cost – employer contributions	1,074	1,083
Current service cost – member contributions	347	338
Past service cost – vested benefits	125	366
Interest cost	2,273	1,927
Benefits paid (net of transfers in)	(46)	(594)
Actuarial (gains)/losses	(8,043)	692
At 31 March	36,739	41,009

Changes in the fair value of plan assets are as follows:

	2008 £'000	2007 £'000
At 1 April	35,520	30,561
Expected return on plan assets	2,407	1,858
Employer contributions	5,262	3,586
Member contributions	347	338
Benefits paid	(46)	(594)
Actuarial loss on plan assets	(4,704)	(229)
At 31 March	38,786	35,520

Analysis of the movement in the amount recognised on the balance sheet:

	2008 £'000	2007 £'000
At 1 April	5,489	6,636
Total (credit)/charge to Income Statement	(2,274)	2,439
Contributions paid (excluding member contributions)	(5,262)	(3,586)
At 31 March	(2,047)	5,489

	2008	2007	2006	2005	2004
Experience adjustments arising on scheme assets:					
Amount (£m)	(4.7)	(0.2)	3.5	0.9	2.0
Percentage of scheme assets	(12%)	(1%)	11%	4%	11%
Experience adjustments arising on scheme liabilities:					
Amount (£m)	8.0	(0.7)	(2.0)	(0.9)	(0.1)
Percentage of the present value of scheme liabilities	22%	(2%)	(5%)	(3%)	(0%)
Present value of scheme liabilities (£m)	36.8	41.0	37.2	32.4	26.7
Fair value of scheme assets (£m)	38.8	35.5	30.6	24.6	18.9
Surplus/(deficit) (£m)	2.0	(5.5)	(6.6)	(7.8)	(7.8)

The contributions paid in the year to 31 March 2008 include a special contribution of £4.0m (2007: £2.0m). The contribution expected to be paid during the financial year ended 31 March 2009 amounts to £1.4m.

NOTES TO THE FINANCIAL STATEMENTS

20. Capital and other financial commitments

The group's business plan at 31 March 2008 shows net capital expenditure and infrastructure renewals expenditure of £315m during the next financial year. While only a portion of this amount has been formally contracted for, the group is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

21. 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 Cyfyngedig group.

22. 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.

23. Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons existed during the year or were outstanding at the balance sheet date.

24. Elan Valley Trust Fund

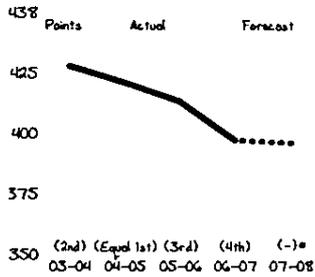
In 1984 Welsh Water Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

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, whilst 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.

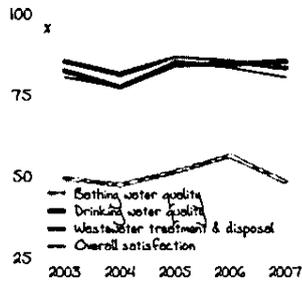
The assets of the fund are not included in these financial statements.

Interest receivable includes £2.1m (2007: £2.7m) in respect of distributions from the Elan Valley Trust Fund.

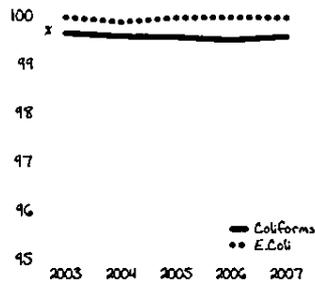
1. Overall Performance Assessment



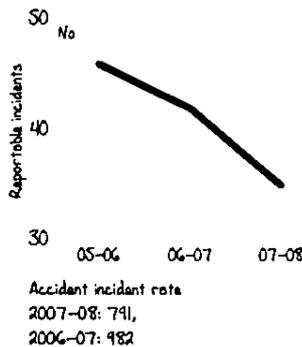
2. Customer satisfaction



3. Bacteriological compliance of the top



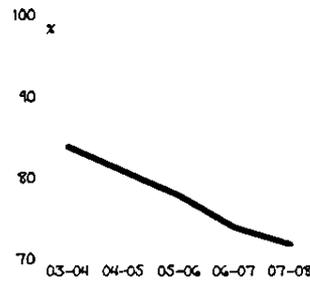
4. Health & safety



5. Credit ratings of Glas Cymru bonds

Bond type	Standard & Poor's	Moody's	Fitch Ratings
Class A	AA	Aaa	AA
Class B	A	A3	A
Class C	BBB+	Baa2	BBB+

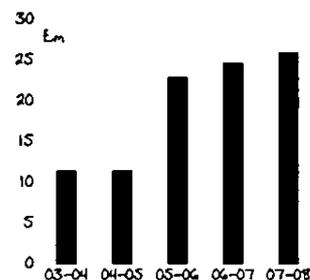
6. Gearing (net debt/RCV)



7. Interest cover

Year to 31 March	2008 (€m)	2007 (€m)
EBITDA (pre - 'customer dividend')	418	374
Interest payable (excluding indexation and amortisation of issue costs):		
Senior debt	115	115
Senior debt + class C bonds	125	125
Total debt	127	128
Interest cover (EBITDA/Net interest):		
Senior debt	3.6x	3.3x
Senior debt + class C bonds	3.3x	2.9x
Total debt	3.3x	2.9x

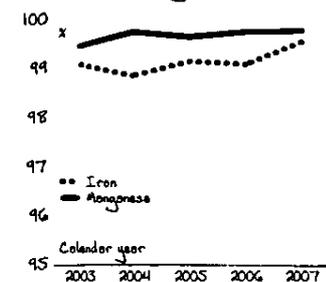
8. 'Customer dividend'



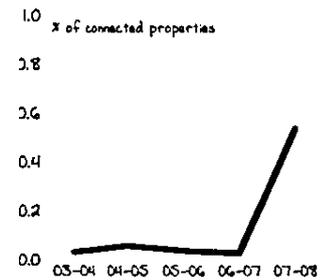
9. Bacteriological compliance

	Compliance 2007	Compliance 2006
Water treatment works		
Coliforms	99.84%	100%
E-Coli	100%	100%
Service reservoirs		
Coliforms	99.9%	99.9%
E-Coli	99.9%	100%
Compliance in water quality zones		
Coliforms	99.6%	99.5%
E-Coli	99.9%	100%

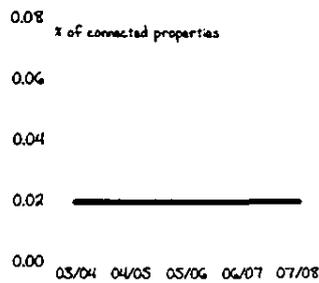
10. Iron & manganese compliance



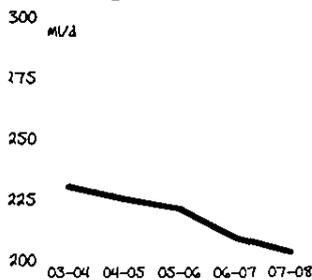
11. Unplanned interruptions to supply



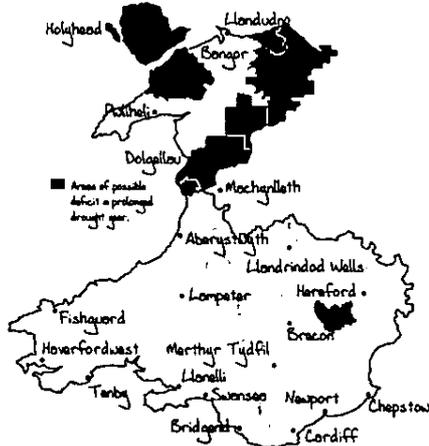
12. Risk of low pressure



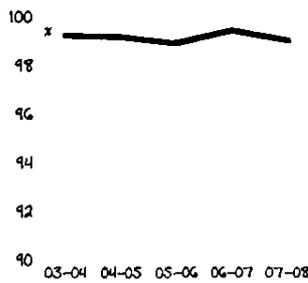
13. Leakage



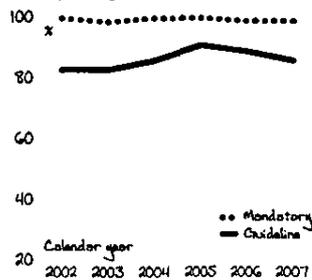
14. Supply and demand



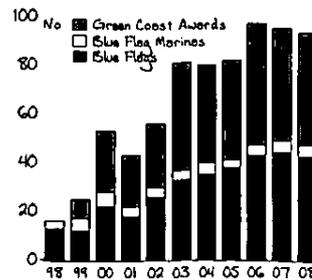
15. Wastewater treatment works (LUT) compliance



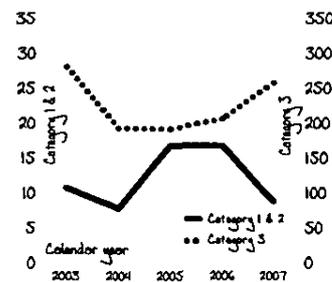
16. Bothing water quality compliance



17. Award winning beaches



18. Pollution incidents



HIGHLIGHTS 2007-08

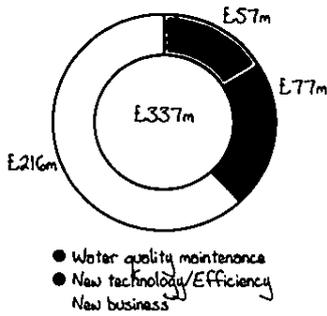
WATER

- * Best ever compliance with standards for iron in Wales
- * 440km of unlined water mains replaced or refurbished (2000 - 2008: nearly 3,500km)
- * Leakage reduction target met - 10 years in a row: 50 leaks and bursts repaired every day.

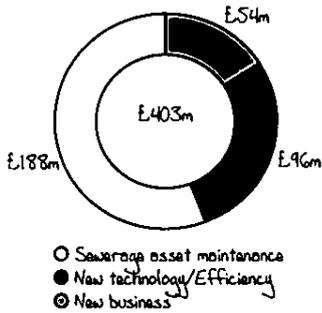
ENVIRONMENTAL

- * 91 sewer overflows improved
- * Risk of sewer flooding alleviated for over 300 properties.

19. Water quality investment (AMP4)



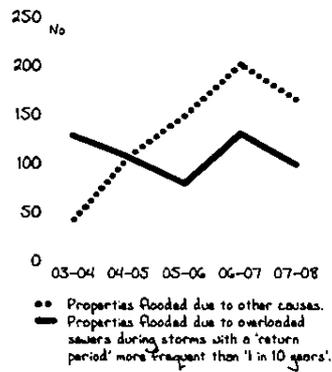
20. Sewerage quality investment (AMP4)



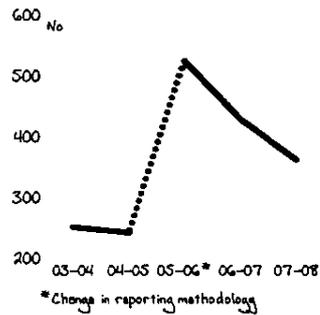
21. Value for money score (0-10)



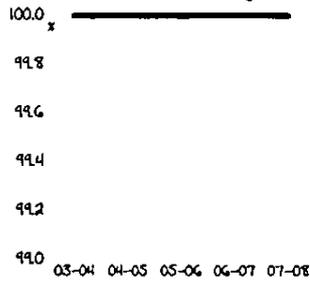
22. Sewer flooding



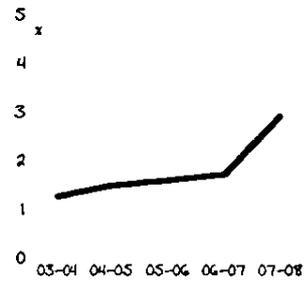
23. Sewer flooding at risk register



24. Billing contacts dealt with, within 5 working days



25. Calls abandoned

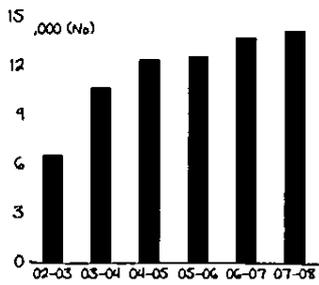


26. Access and recreation

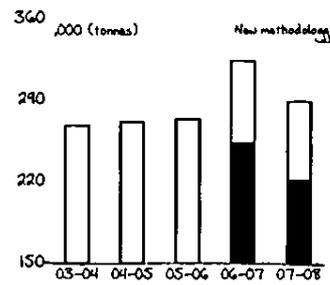


- | | |
|-------------------------|----------------|
| 1 Llyn Alaw | 9 Llys y Ffrân |
| 2 Cefni | 10 Usk |
| 3 Dolwen and Pias Uchaf | 11 Baecons |
| 4 Llyn Aled | 12 Contref |
| 5 Llyn Brenig | 13 Pentwyn |
| 6 Alwen | 14 Talybont |
| 7 Elon Valley | 15 Llwyn On |
| 8 Rosebush | 16 Pontsticill |
| | 17 Llanegfodd |

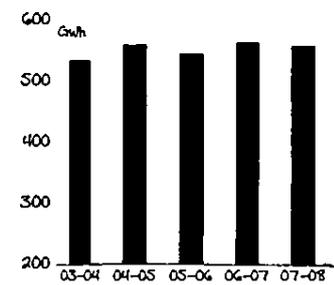
27. Educational visits



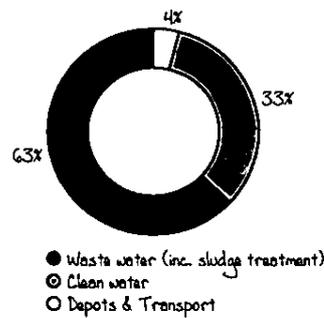
28. Total emissions tCO₂e/year



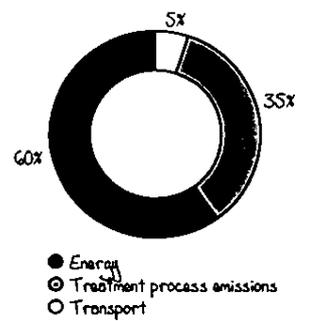
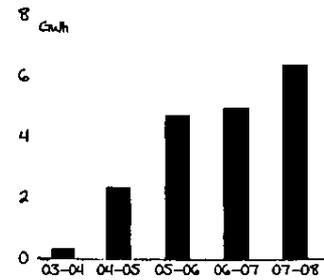
30. Energy use



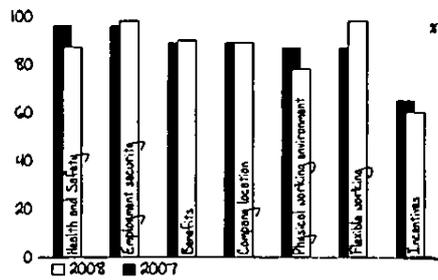
29. Whole business carbon emissions (2007/08)



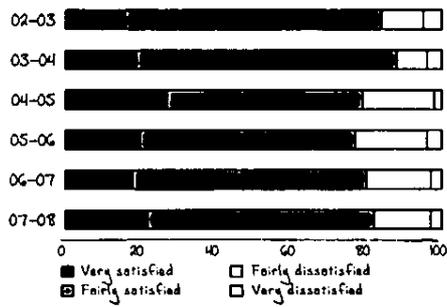
31. Renewable energy capacity



32. Employee satisfaction survey



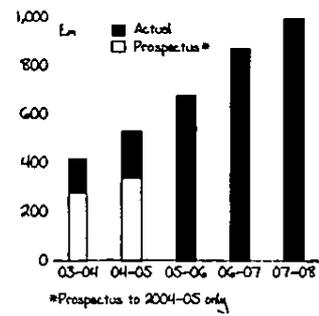
33. Employee satisfaction/dissatisfaction



34. Breakdown of operating costs

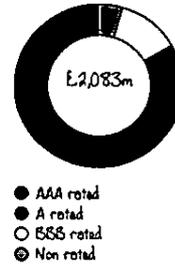


37. Growth in financial reserves



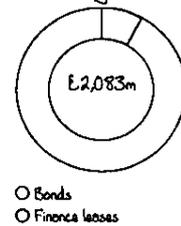
38. Credit rating of debt 2001

As at 11 May 2001



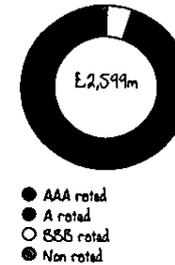
35. Source of gross debt 2001

As at 11 May 2001



39. Credit rating of debt 2008

As at 31 March 2008



36. Source of gross debt 2008

As at 31 March 2008

