

Glas Cymru Cyfyngedig

Directors' report and financial statements
for the year to 31 March 2013

Company No: 3975719

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COMPANIES HOUSE

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glas
Glas Cymru Cyfyngedig

**REPORT AND
ACCOUNTS
2013**

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Dŵr Cymru Cyfyngedig

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KEY FACTS 2012/13

// Welcome to our 2013 Annual Report

Dŵr Cymru Cyfyngedig is unique among utility companies in the UK – we are owned by Glas Cymru Cyfyngedig, a 'not-for-profit' company, limited by guarantee

WE HAVE NO SHAREHOLDERS AND OPERATE SOLELY ON BEHALF OF OUR CUSTOMERS, BOTH NOW AND IN THE FUTURE.

Dŵr Cymru provides water supply and sewerage services to over three million people living and working in much of Wales, Herefordshire and Deeside. Our primary responsibility is to operate, maintain and upgrade the £30 billion network of assets we look after on behalf of our customers so as to ensure a safe and reliable drinking water supply and to deal effectively with waste water in order to protect the environment

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1.4 million homes and businesses served

800 million litres of water supplied every day

£1 billion investment programme 2012-15

27 500km of water mains

99.96% overall water quality compliance at the tap

More compliments than complaints

More than 30 000km of sewers

100 leaks fixed every day

33 Blue flags

838 sewage treatment works

Over 90% customer satisfaction

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66 impounding reservoirs

52 000 customers receiving help with their bills

CHAIRMAN'S STATEMENT

// Glas Cymru, a company limited by guarantee, owns
Dŵr Cymru Welsh Water on behalf of its customers and
I am pleased to report a year of further good progress

STRONG AND EFFECTIVE CORPORATE GOVERNANCE AND BOARD LEADERSHIP HAS BEEN AND CONTINUES TO BE KEY TO WHAT WE AIM TO ACHIEVE FOR THE THREE MILLION PEOPLE WHO RELY ON US EVERY DAY FOR THE MOST ESSENTIAL OF PUBLIC SERVICES

Our only purpose is to deliver the best possible outcomes for our customers, supplying drinking water of the highest quality and safeguarding the environment that we look after on behalf of the communities we serve. Moreover, we must do so affordably.

On most of the measures that matter for our customers and other stakeholders, our performance now ranks Dŵr Cymru towards the top of industry league tables. The quality of the drinking water we supply remains very high and in 2012 we achieved a turnaround in our environmental performance, though there remains more to do. Customer satisfaction with our service was consistently over 90% and last year for the first time we received more thank-you letters and emails from our customers than complaints.

This is the result of a lot of hard work by everyone who works for Dŵr Cymru – day and night, and in all weathers – and on behalf of the Board I would like to say thank you for this dedication and effort.

Financial reserves – or 'customer equity' – have grown ten fold since 2001 and the Company has the highest credit ratings in the utilities sector. Having a strong financial position means we are able to raise funds efficiently for continuing high levels of investment, to maintain and improve services, while at the same time keeping customer bills affordable. The average household bill is today lower in real terms than it was in 2000 while we also give extra help to our least well off customers.

Strong and effective corporate governance and Board leadership has been and continues to be key to what we aim to achieve for the three million people who rely on us every day for the most essential of public services. The Board has always had a majority of independent directors and we meet the requirements of the UK Corporate Governance Code. I have taken over as Chairman of the Board from Robert Ayling, who has taken a temporary leave of absence from 1 May 2013. Throughout his tenure as Chairman of the Board, he demonstrated strong leadership and ensured a clear division of responsibility between the Executive Directors, responsible for the design, development and implementation of strategic plans and day to day management decision-making, and the role of the Non-Executive Directors who constructively challenge and contribute to the development of strategy.

As set out in detail later in this Report, we are fortunate to benefit from a group of Non-Executive Directors with a wide range of backgrounds and skills which complement each other, so that the Board provides a forum for frank and constructive discussion. This has been especially important as we support the company in its consultation on its future business plan.

The Board meets regularly (on ten occasions each year formally, and where circumstances demand a more rapid response, for ad hoc meetings by telephone). We ensure there are ample opportunities to meet with representatives of the different operational areas of the business and to attend site visits. During 2012/13, the then Chairman met with each Director individually to provide feedback and to address any knowledge development needs.

Succession planning is a key responsibility for the Board and we were pleased to announce in June that, following a thorough and competitive process, Chris Jones would succeed Nigel Annett as Chief Executive in September this year. Nigel and Chris are the founder directors of Glas Cymru and have been executive directors of Dŵr Cymru since 2001.

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Over the coming year the Board will work with the new CEO to ensure that the roles and responsibilities of the respective Directors are clearly established. The Nomination Committee of the Board is currently undertaking a further competitive process to identify a suitable successor to me as Non Executive Director, as I intend to step down from the Board in the course of the next calendar year.

On behalf of the Board I would like to thank Nigel for everything that he has achieved for Dŵr Cymru over the last 12 years. He played a central role in establishing Glas Cymru and has then led with distinction and successfully an important company that operates under what is still a unique ownership model in the water industry. Nigel leaves the Company in very good shape and in safe hands for the future.



John Bryant, Chairman
13 June 2013

MANAGING DIRECTOR'S REVIEW

// In much of Wales, Hereford and Deeside, the water industry is owned and managed on behalf of the 3 million people who rely on Dŵr Cymru for the most essential of public services

OUR AMBITION IS TO MAKE FULL USE OF THE ADVANTAGES OF OUR VERY DIFFERENT OWNERSHIP MODEL TO DELIVER THE BEST POSSIBLE OUTCOMES FOR OUR CUSTOMERS

Our customers continue to benefit from our unique 'not-for-profit' ownership model. The average household bill is today lower in real terms than it was in the year before Glas Cymru secured the ownership of Dŵr Cymru, while we also now help more than 52,000 of our less well off household customers with their bills through a range of affordability tariffs and other means. Stringent tap water quality standards are being met and our rivers and coastal waters are amongst the best in the UK. Customer satisfaction with our service is consistently over 90% and last year we received more thank-you letters and emails from our customers than complaints, when we get it wrong we say so and do our best to put things right. We are proud of the quality of service we offer our customers and we receive many compliments about our 'warm voice' service based in Wales.

Financial reserves – or 'customer equity' – have risen ten fold since 2001 and now stand at £1.6 billion. With financial gearing reduced again to 63% – down from 93% in 2001 – the Company has the highest credit rating in the utilities sector. This strong financial position allows us to raise long term funds for investment at low cost – and only for the benefit of our customers. Under our ownership model high credit ratings align the interests of our investors – mainly UK based pension funds and life assurance companies – with our customers.

Our ambition is to make full use of the advantages of our very different ownership model to deliver the best possible outcomes for our customers – supplying drinking water of the highest quality and safeguarding the environment that we look after on behalf of the communities that we serve. Last year was another year of significant progress towards this goal.

Performance overall was the best it has been and this was achieved despite challenging weather conditions. This is the result of a lot of hard work by a great team of dedicated people in Dŵr Cymru. We continue to improve in all that we do and we are a better and more capable organisation than we were a year ago. Our drive to be the best possible water company for our customers lies at the heart of all that we stand for.



Nigel Annett, Managing Director
13 June 2013

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HIGH QUALITY DRINKING WATER

// Supplying safe drinking water at all times is our most important responsibility – and this means that our tap water must be free from harmful chemicals and bacteria and be acceptable to our customers in terms of appearance, smell and taste.

750,000 TESTS ARE CARRIED OUT ON SAMPLES TAKEN FROM OUR WATER SOURCES EACH YEAR

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The quality of the water we supply is continuously monitored at our water treatment works and in addition, over the course of a year, more than 750,000 tests are carried out on samples taken from our water sources (lakes, rivers and reservoirs) and from points across the water supply system (including customers' kitchen taps) to verify quality. 300,000 tests are carried out on drinking water samples in accordance with regulatory requirements. All these results are submitted to the Drinking Water Inspectorate ('DWI') and are assessed against water quality standards set by EU Directives and national legislation.

In 2012 the high quality of the water we supply was maintained, with 99.96% of samples taken and analysed meeting all drinking water quality standards at customers' taps. We achieved our internal targets on 4 of the 6 indices used by DWI to measure water quality compliance. At each point on the water supply system, we also achieved better than industry average performance on 5 of the 6 indices.

The one index where our performance was below industry average was the Distribution Maintenance Index (which measures water quality in the water distribution system and focuses on those parameters responsible for causing discoloured water as a result of turbidity, iron and/or manganese). Our 2012 performance for this index was 99.84%, which was below our internal target of 99.95% and also below the industry average of 99.89% as a result of 15 failures against the standard for iron in samples taken during 2012 (2011: 11 failures).

We also received more contacts from customers about discoloured tap water and the rate for 2012 increased to 2.1 per 1,000 customers (2.0 in 2011), this follows several years of steady improvement on this measure of customer satisfaction with our tap water. Since 2001 we have renewed or relined 4,000km of unlined iron water mains but more than 6,500km remain and mitigating the risk of discoloured water from these mains, particularly following a burst or any other change in network flow, is a current priority that will feature in our future plans.

99.96% overall water quality compliance

4,000km of unlined iron water mains renewed since 2001

16 water treatment works being refurbished or upgraded

THE BRETTON LABORATORY GAINED UKAS ACCREDITATION IN ITS FIRST YEAR

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Our accelerated investment programme to improve the reliability of our water supply network – based on our Drinking Water Safety Plans – continues to make good progress and last year we completed schemes at Bala and Llyswen and we are currently on site at Coed Dowlyd, a new service reservoir which will give 70,000 customers in the Colwyn Bay area additional security of supply. The additional investment of £75 million under our 'Go to Green' programme to rebuild, refurbish or upgrade 16 water treatment works across Wales is on track and planning permission was recently granted for brand new water treatment works at Llyn Conwy and Dolbenmaen, both in North Wales.

New water quality laboratories

During 2012 we completed successfully the complex and ambitious project of in-sourcing laboratory services from the previous contract provider, building and commissioning a new microbiology laboratory at Bretton in North Wales and a new purpose-built chemistry, microbiology and cryptosporidium laboratory at Newport in South Wales. Together these state-of-the-art facilities provide us with the analytical testing facility for all drinking water samples taken across Dŵr Cymru's supply area.

The new laboratories are staffed with 50 scientists which has strengthened further our scientific capability. The Bretton laboratory gained UKAS accreditation in its first year of operation which is testament to the calibre and hard work of our team.

Water Health Partnership for Wales

The Water Health Partnership for Wales, established by Dŵr Cymru in 2006, continues to be an important forum for health and water professionals from across Wales. It brings together water companies, regulators, local authorities, health professionals and Welsh Government officials to share information and learning to improve inter-agency knowledge of public health and drinking water quality issues.

The overall aim of the Partnership is to provide a forum for the consistent understanding and management of public health related water quality issues. In addition to routine networking and information sharing, during 2012 the Partnership developed guidance on the provision of drinking water to large temporary events like the National Eisteddfod and on reducing lead in drinking water as well as running several public health emergency exercises.

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RELIABLE SANITATION

// As important for public health is safe and reliable sanitation, taking away wastewater and protecting both properties and our environment from flooding and pollution

WE ARE NOW RESPONSIBLE FOR MAINTAINING MORE THAN 30,000KM OF SEWERS

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Following the transfer of private sewers to the regulated water and sewerage companies in England and Wales in October 2011, we are now responsible for maintaining more than 30,000km of sewers, a near doubling of our sewer network

Much of our sewer network is old and often in poor condition and one of our biggest challenges is to minimise the impact of any blockages and other problems on the network. Following the transfer of private sewers we now deal with more than 2,000 blockages each month, a doubling of workload. We continue to improve our response times and in over 99% of cases we manage to deal with the blockage before it causes property flooding or a pollution incident.

Let's Stop the Block' campaign

Blockages account for around 80% of sewer flooding and pollution incidents in our region. A good proportion of these blockages are the result of the build-up of every day items, such as flushed away baby-wipes, nappies and sanitary products, and fat, oil and grease poured down the sink. This misuse of our sewers is more often than not due to a lack of awareness about what can and cannot be flushed or poured away, and a lack of understanding of the consequences. The aim of our 'Let's Stop the Block' campaign is to drive down the number and cost of blockages, sewer flooding and pollution by tackling the root cause, raising awareness, boosting our customers' understanding and inspiring our customers to act differently.

Our 'Let's Stop the Block' campaign was launched in Rhondda Cynon Taff and Caerphilly – blockage hotspots – and has involved media coverage, local advertising, schools roadshows and a series of community events organised in collaboration with a local radio station and Coleg Morgannwg. Our pledging website – letsstoptheblock.com – underpins the whole campaign. Initial analysis shows a big reduction in blockages in the target areas and we will be doing further work to embed the message before rolling the campaign out to other hotspots later this year.

99% of blockages dealt with without flooding

Delivered 26 schemes to reduce sewer flooding

£20m cost of operating and maintaining private sewers

RAINSCAPE; AN INDUSTRY LEADING APPROACH TO DEAL WITH SURFACE WATER

Much of our sewer network is 'combined' and drains both wastewater from properties and surface water from roads and roofs. Last year's very wet weather – the third wettest on record – put considerable additional pressures on our sewer network and on our sewerage teams across the business.

During the year there were six storms with a return period of greater than '1 in 30 years' and flows in our combined sewer network were at unprecedented levels. Despite this, the total number of flooding incidents was only slightly higher than in the previous year (provisionally 221 incidents, up from 186 in 2011/12). However, this measure of performance excludes flooding as a result of extreme storms and there were a further 35 flooding incidents from hydraulically overloaded sewers during extreme storms, we now have just over 100 properties which have suffered repeat internal flooding from overloaded sewers in the last 10 years, including incidents as a result of extreme weather.

We know which properties are at risk of repeat flooding during less extreme weather and during the year we delivered 26 schemes to reduce the number of properties on our 'at risk register' to just over 200 properties.

We are witnessing more frequent extreme weather events and our plans for the future must cater for this change in weather patterns. We have developed an industry leading approach to retrofitting sustainable drainage systems to capture, divert or slow down the rate at which rainwater enters our sewer network. This approach not only reduces the risk of flooding or pollution from overloaded sewers following heavy rainfall, it also helps to create a greener and better local environment. We have branded this programme 'Rainscape'. It involves us working closely with local communities to agree how these improvements are delivered.

One of our biggest schemes is in Llanelli where, because of surface water drainage, flows in the sewer network are as high as the neighbouring catchment of Swansea which is three times bigger. The first phase, now underway and costing £12 million, will divert rainfall into natural swales and other green areas, reducing by 20% the volume of sewer overflow spills into the environmentally sensitive Loughor Estuary as well as reducing the risk of flooding and enabling economic development.

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During the year we invested a total of £43 million on our sewer network, while in total we have – between October 2011 and March 2013 – incurred capital and operating costs of £20 million on operating and maintaining the transferred private sewers.

We estimate that there are over 800 private sewage pumping stations that will transfer to Dŵr Cymru in March 2016 and we are currently surveying these poor condition assets with a view to an orderly transfer over the next three years. By taking over responsibility for both private sewers and sewage pumping stations we are serving the public interest as well as removing a source of worry for many of our customers. The cost of these transfers will be reflected in our plans that will be submitted to Ofwat later this year ahead of the next regulatory price review in 2014.

PROTECTING OUR ENVIRONMENT

// We collect and clean the wastewater produced by our household and business customers across our region so as to protect public health and safeguard our rivers and coastal waters from pollution

WE ACHIEVED 100% COMPLIANCE WITH THE KEY 'LOOK-UP' STANDARD FOR PERMIT COMPLIANCE

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Operating our estate of ageing wastewater treatment works so that we continue to protect our rivers and coastal waters – which are among the best in the UK – is one of our toughest jobs. Last year we turned around performance and only 8 of our 838 wastewater treatment works failed to comply with discharge permits, we achieved 100% compliance with the key 'look-up' standard for permit compliance. This is a marked improvement on 2011 when 26 works failed one or more consents and is due to a lot of hard work supported by additional targeted investment in refurbishing close to 50 of our worst condition treatment works. The much improved compliance with environmental permits has been acknowledged by our environmental regulator, Natural Resources Wales.

Continuing to renew and improve our wastewater treatment works estate will remain a priority for many years to come. We invested £70 million last year on maintaining and upgrading wastewater treatment works and during the year we completed 41 schemes including at Swansea Bay where we renewed the pumping stations in a £4 million scheme ahead of the 2013 summer season. We are currently on site or about to commence work at nearly 60 locations across our region, including at Heswall on the Wirral, where improvements to the storm water system will reduce the number of spills to the environmentally sensitive Dee Estuary.

Pollution incidents

Reducing the number of pollution incidents as a result of blockages or other problems on our sewer and wastewater treatment works network has been a priority for us and last year we achieved the target set by the Board and cut the total number of incidents by 18% from 246 to 205. There were no 'category 1' pollution incidents and 6 serious 'category 2' incidents and we reported 47% of all incidents ourselves, just behind our target of 50% and well ahead of the figure of 37% in 2011.

We continue to work hard to reduce the number of pollution incidents caused by blockages on our now much larger sewer network following the transfer of private sewers. We have installed some 1,000 state-of-the-art 'Cello' units (with a further 1,000 to be installed before 2015) which allow us to monitor flows in our sewer network, this data is then used by our 'real time' modelling team to predict the performance of our sewer network in order to prevent pollution or flooding incidents. During the year we established another four CCTV crews – taking the total to eight – ensuring that we are not only better equipped to respond quickly to problems on the sewer network but can also gain a better understanding of the condition and performance of the network. We also have 'river rangers' who walk and inspect our sewers located close to river courses and we have good relations with an increasing number of angling and canoe clubs who can help us by giving us early warning of any problems with our network.

33 Blue flags

pollution incidents have fallen from 246 to 205

Fix on average 100 bursts and leaks every day

25% reduction in water abstraction since 1990s

33 BLUE FLAG AWARDS FOR THE 2013 SUMMER SEASON

Coastal water quality

Ensuring our wastewater treatment works and our sewer network safeguard our rivers and coastal waters from pollution is essential, not least because of the importance of our environment for the economy of Wales. Tourism accounts for some 13% of GDP and employment in Wales, and around a third of all day-trips in Wales go to the coast. Wales, with just 15% of the British coastline, secured 33 Blue Flag awards for the 2013 summer season, a third of the total awarded to all of the UK. This is down from the 43 Blue Flag awards for the 2012 season as a result of last summer's very wet weather and the resulting run-off from agricultural land and spills from our sewer network as well as the Revised Bathing Waters Directive which now sets much tighter water quality standards for achieving a Blue Flag award. Last year we provided 'real time' spill warnings for visitors at three beaches in Pembrokeshire and for the 2013 season we are increasing this to 25 beaches. We are also trialing mobile phone apps and 'real time' water quality monitoring technology with the aim of providing still better information on coastal water quality for visitors to beaches around the coast of Wales.

Water resources

Around 98% of the water we supply to our customers is abstracted from rivers in Wales, most of which are regulated by our reservoirs. Ensuring that no more than necessary is taken from these important rivers is crucial for their continued high ecological quality. The amount we abstract for public water supply has been falling steadily and is now some 25% lower than in the mid 1990s. However, the expected impact of climate change alongside the requirements of the Habitats Directive means that we must plan for possible reductions in the amount we abstract for public water supply during the driest years in future.

We have published our Draft Water Resources Management Plan which not only sets out how we might meet these requirements to reduce the quantity of water we take from the environment but also indicates where we might be able to develop surplus water resources to support economic development in our region or for export to a neighbouring region.

A key part of our plans to balance the supply of water from the environment and the demand for water from our customers is to continue to reduce leakage from our water supply network. We find and fix on average more than 100 bursts and leaks every day and last year we again achieved our leakage target, since the 1990s we have halved leakage on our water supply system.

Energy and carbon efficiency

Dŵr Cymru is one of the biggest energy users in Wales and our aim is to steadily reduce our net energy consumption and our carbon emissions through efficiencies and through generation of green energy from our network of assets. We currently generate from Advanced Anaerobic Digestion of sludge and other renewable sources around 8% of our energy needs and we remain on track to achieve our target of 15% from these sources by 2015.

Last year we commissioned a new anaerobic digestion plant at our Five Fords wastewater treatment works at Wrexham which added 1,200kW to our renewable generation capacity. We also expanded our solar and hydro portfolio with six further installations while at the

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same time we continue to improve the energy efficiency of pumps and other equipment across our estate.

However, because of last year's wet weather – and in South Wales rainfall was double that of the previous two years – our wastewater treatment and pumping power costs were 11% higher than budget. Lower energy use elsewhere only partially offset this increase and for 2012/13 our total electricity use was 420GWh, 2% higher than in the previous year. The very wet weather also meant that energy generation from our advanced anaerobic digestion plants was 11% lower than in the previous year. Because use of electricity accounts for 85% of our carbon emissions these too were 2% higher than last year.

Independent Environment Advisory Panel

We have established our Independent Environment Advisory Panel which comprises over 20 organisations with an interest in our environment and Dŵr Cymru's role in protecting our rivers and coastal waters as well as more generally. The Panel met 4 times last year and has helped us to shape our science and research agenda as well as our priorities for investment in the years ahead. The Panel has also supported our catchment based studies which will help us to establish the most cost effective way of meeting the requirements of the Water Framework Directive.

CUSTOMER SERVICE

// As the only water and sewerage company owned on behalf of its customers, we are determined to be one of the best performers in the utilities industry on day to day customer service

CUSTOMER WRITTEN COMPLAINTS FELL AGAIN LAST YEAR TO 3,652 WHICH IS A MORE THAN 70% REDUCTION OVER LAST 3 YEARS

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Last year we made excellent progress and independent research carried out each month shows customer satisfaction is consistently over 90%. This was confirmed by Ofwat's independent quarterly research which gave Dŵr Cymru a customer satisfaction score of 92% and ranked Dŵr Cymru second on the industry league table for this key measure.

The number of customer written complaints fell again last year to 3,652 which is a more than 70% reduction over the last three years, for the first time we received more written thank-you letters and compliments from our customers than complaints. The number of unwanted customer contacts – for example as a result of a customer chasing progress on a job – fell again for the fourth year in a row and was 75% lower last year than it was in 2009/10.

This sector leading performance is the result of a lot of hard work and a growing capability and the successful implementation of a host of initiatives and improvements alongside a customer service culture and purpose which puts our customers first. Each depot has a case manager whose job it is to ensure that customers are kept informed with the progress of the job we are doing for them. Customer service and other training means that our operational call centre staff are now better able to give high quality advice when customers call us.

Last year we sent out more than 600,000 text messages to let customers know that we were dealing with the problem – like a burst water main – that was affecting their service and to keep them informed with our progress. We call back around 5,000 customers each month for whom we have carried out work to check that they are content with our service and that the job was completed satisfactorily, all customer calls to our contact centre are recorded to allow monitoring for quality of service. Our experienced front line staff have worked on refreshing a number of customer facing processes, putting themselves in the customer's shoes, and these improved 'customer journeys' have then been rolled out across the business. We continue to improve our website and last year we added a new 'post code driven' emergency and planned work section, our text messages include a link to the website which we keep updated.

Water supply interruptions

We have employed new technologies to limit the amount of time that customers might have their water supply interrupted because of necessary work on the network, this includes pipe-freezing and working under pressure so that repairs can be carried out without decommissioning the system.

92% Customer satisfaction

70% reduction in written complaints

Received more compliments than complaints last year

600 000 text messages sent to let customers know we were dealing with a problem

WE HELP 52,000 OF OUR LEAST WELL OFF HOUSEHOLD CUSTOMERS TO PAY THEIR WATER BILL

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Keeping to a minimum the amount of time customers are without tap water because of a burst water main or other planned work on the network is an essential part of our service. Last year's performance was affected by a number of major trunk main bursts and the average number of minutes of lost supply for our customers was significantly increased from the previous year's figures.

We are also continuing to investigate the extent to which performance in respect of water supply interruptions was affected by particular issues we have identified in one of our distribution areas. This investigation involves reviewing all interruptions to supply in this one distribution area last year. Despite very few customer calls at the time, there appear to have been some additional unplanned interruptions where the loss of supply lasted longer than 12 hours, and as a consequence the customers affected by these long interruptions were entitled to compensation. We are writing to say sorry to each of the customers affected and we are paying compensation in line with our Guaranteed Standards Scheme.

Dŵr Cymru Customer Services

Our commitment to delivering excellent customer service lay behind our decision to establish Dŵr Cymru Customer Services ('DCCS') in August last year, ending the previous outsourced arrangements. DCCS is a subsidiary company with its own board and employs 400 colleagues whose focus is billing, account queries, meter reading, effective debt management and support for our vulnerable customers. Last year we invested £3 million to upgrade our debt collection system and we are now able to target affordability support more quickly and effectively as well as introducing a wider range of sanctions to reduce debt, including litigation through the courts when we need to.

For our business customers, DCCS provides a dedicated account management function so that every large customer has a named contact in the event of a problem or query. Last year the team launched a range of new services which now enable business customers to access 'real time' data on their water usage, we also offer leak detection services and advice on efficient water use and how to reduce bills. Two independent surveys of our business customers last year showed 89% and 87% satisfaction with our service and value for money.

Around 30% of our household customers spend more than 3% of their disposable income on their water and sewerage bill, almost 15% of our customers spend more than 5% of their income on their bill. Through our range of assistance tariffs and other help we now help 52,000 of our least well off household customers to pay their water bill, we believe this is more than any other water company.

We have also developed good relationships with Registered Social Landlords and Local Authorities in Wales and we now have 11 schemes in place which enable our customers to pay their water bill along with their rent. The DCCS team has also established a partnership with Community Housing Cymru and Moneyline Cymru, funding a money adviser based in Merthyr Tydfil.

COMMUNITY, WIDER ENVIRONMENT AND EDUCATION

// Our estate of reservoirs and land holdings include some of the most attractive and important landscape in Wales. The sites that we actively manage for public recreation attract close to a million visitors each year

THIS YEAR WE OPENED A CYCLING CENTRE AT OUR LLYN BRENIG VISITOR CENTRE IN NORTH WALES

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We have developed facilities for a range of activities including cycling, fishing, sailing, canoeing, and windsurfing and many sites have bird watching hides, picnic areas, walks and nature trails

This year we have opened a cycling centre at our Llyn Brenig visitor centre on the Denbigh Moors. We have two other visitor centres at Llys y Fran, near Haverfordwest, and the Elan Valley in mid Wales and we are building a fourth facility at our Llandegfedd Reservoir near Cardiff and Newport. To enhance the visitor experience we are developing 'apps' for smart phones as part of the Visit Wales 'digital tourism' initiative. Our team of rangers lead a variety of activities throughout the year – including archeological expeditions, star-gazing evenings, fly-fishing courses, charity cycling events and sponsored walks, boat trips, and guided nature walks and wildlife tracking – which foster Dŵr Cymru's standing with our customers and the communities we serve

We encourage conservation best practice across our landholdings and all our main reservoirs have biodiversity management plans. At Llyn Brenig we are planning to link two Sites of Special Scientific Interest with a corridor for wildlife, and we have a project to attract nesting ospreys

In the Brecon Beacons we are encouraging less intensive grazing regimes and are re-landscaping the margins of water bodies to promote habitats and to improve water quality

Supporting education continues to be one of our main areas of community support. During the last academic year nearly 27,000 young people passed through one of our four education centres or attended a session led by one of our teachers. Our education centres are staffed by full time seconded teachers and we use our indoor and outdoor facilities to teach primary school children about the importance of water and our environment

42 000 hectares of land

Nearly 27 000 young people participate in our education programme

One million people visit our visitor centres each year

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WE PROVIDE £400,000 FOR NOT-FOR-PROFIT ORGANISATIONS TO HELP IMPROVE WATER QUALITY OF LAKES, RIVERS AND WATERWAYS

Last July we announced that we would provide matched funding of £400,000 for not-for-profit organisations to help improve the quality of Welsh rivers, lakes and waterways and create a more vibrant and healthy environment for people and wildlife within their supply area. Projects supported by this initiative include 'Love our Lake', where the communities of Nant Peris, Llanberis and Fachwen are helping to improve the water quality of

Llyn Padarn which suffered an algal bloom in 2009, the Monmouthshire Olway and Trothy Project, where farming families and community agents are working to reduce nutrient and fine sediment loadings in the River Wye catchment so as to improve habitats, and the Upper Tywi catchment restoration project which is researching and trialing lime dosing to restore pH balance of the river and reverse the effects of acid rain.

A GREAT TEAM WORKING FOR DŴR CYMRU'S CUSTOMERS

// Everything we do and achieve depends on the talent and commitment of the people who work for Dŵr Cymru

THE FACT THAT WE ARE OWNED AND MANAGED ON BEHALF OF THE THREE MILLION PEOPLE WHO RELY ON US DAY IN DAY OUT FOR THE MOST ESSENTIAL OF PUBLIC SERVICES IS A KEY FEATURE IN OUR CULTURE

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We have a talented and committed team that can be relied upon to 'go the extra mile' to ensure that the public service our customers rely on us for is at all times safe and dependable. We all understand the importance of what we do for public health as well as the risks that come with looking after what is a 24/7 and asset intensive industry. The fact that we are owned and managed on behalf of the three million people who rely on us day in day out for the most essential of public services is a key feature in our culture and at the heart of what we stand for.

Health and safety

The health, safety and wellbeing of everyone who works for our company will always be a priority for us and last year our safety performance continued to improve. The number of reportable injuries fell to 24 (from 29 in the previous year) while the number of working days lost due to injury was 60% lower. This improving trend was achieved notwithstanding the marked increase in workload last year, with the average number of employees and contractors covered by our safety monitoring up by 16%, with a 25% increase in number of hours worked.

We carried out our second occupational health surveillance programme which benefited nearly 1,000 colleagues across the business and allowed us to identify and act on potential health problems early, the number of days lost per person due to illness was lower last year. We continue to stress the importance of 'near miss' reporting as a 'lead indicator' and that improved again last year, we captured over 13,000 potentially 'unsafe acts and conditions' last year which we used as learning opportunities to improve and reinforce safety awareness.

Reduction in reportable injuries

83% of staff are proud to work for Welsh Water

Over 70 apprentices

THE STAFF ENGAGEMENT SURVEY TOLD US THAT 83% SAY THEY ARE 'PROUD TO WORK FOR DŴR CYMRU'

We continue to develop and deliver our 'Journey to Zero' strategy which aims to ensure that good occupational health and safety practice is embedded in all that we do. We have implemented a host of initiatives in support of this strategy, including for instance Pristine Condition manual handling training, which has benefited nearly 2,000 colleagues, and a behavioural safety training programme. Our recent staff engagement survey confirmed that colleagues do recognise the importance of safety with 95% agreeing with the statement 'I know what is required of me with regards to health and safety' and 91% agreeing with the statement 'Health and safety is taken seriously at Dŵr Cymru', these were the two highest scores in the survey.

Staff engagement survey

The response rate to our second staff engagement survey was 77% and the overall 'staff engagement index score' was 76%, this compares with the private sector benchmark of 70% and a score of 69% in the first staff survey which we carried out in 2011 following the ending of the operational outsourcing contracts in 2010.

86% of respondents agreed with the statement "I believe in Dŵr Cymru and what it stands for" while 80% agreed with the statement "Working at Dŵr Cymru makes me do the best work I can". This welcome improvement in feedback from colleagues follows considerable effort to build staff engagement – including better communication with more talk-back sessions, road-shows and the launch of 'Dŵr' our new in-house staff newspaper – and tackling complaints about poor facilities at our depots with our 'You said we did' initiative.

We have also successfully implemented a new 'progression in role' pay structure alongside our continued focus on performance management. We continue to offer opportunities for development at every level, including Cranfield Business School for our future leaders, our City and Guilds accredited Competent Operator programme and our Institute of Customer Service accredited 'How to Wow' programme for customer facing staff.

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We were delighted to be the first large employer to be awarded the Welsh Government's Employer Pledge Award for our Essential Skills programme which we developed in partnership with the TUC. The enhanced numeracy, literacy and IT skills that more than 150 colleagues now have will mean we can make full use of the new technology we are using across our business to improve the service we give our customers.

We are building a strong succession pipeline with over 70 apprentices, graduates, trainee inspectors and chartered engineers on one of our programmes. We enjoy a high reputation as an employer which ensures that we can attract and retain the best. The staff engagement survey also told us that 83% say they are 'proud to work for Dŵr Cymru' while 82% agree that 'Dŵr Cymru puts customers first'. These are encouraging findings that support our view that we are building a strong customer focused culture in Dŵr Cymru.

LOOKING AFTER OUR ASSETS

// Dŵr Cymru employs a network of assets with a replacement value of some £30 billion. Looking after and maintaining this very large infrastructure that we rely upon in order to serve our customers, now and in the future, is a fundamental responsibility for us.

AN AMBITIOUS PROJECT TO REPLACE OUR 25 YEAR OLD BILLING SYSTEM WILL GIVE US A PLATFORM TO DEVELOP FURTHER CUSTOMER SERVICE IMPROVEMENTS

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The Environment Agency in England recently reported that one in every five days saw flooding in 2012 but one in every four days were in drought. The record wet weather in particular had a significant impact on our operations. And while the total number of mains bursts and sewer collapses was lower last year, the very wet weather contributed to a higher number of major breakdowns on strategic assets, all of which were repaired successfully and without having any significant impact on our customers. We judge that nearly all of these breakdowns were a result of unstable ground conditions due to the wet weather.

Our newly strengthened in-house engineering team managed these repairs successfully, all of which involved 24 hour working and often in very difficult weather conditions. Despite this higher number of major asset breakdowns last year, we are able to report 'stable' asset serviceability for both our water and our sewerage activities.

We also continue to build our IT capability to support front line operations, capital delivery and customer service and our cost efficiency. Last year we implemented new systems to support our new laboratories at Bretton and Newport, a new automated on-line service for our developer customers, a planned maintenance scheduling system for below ground sewerage assets and we launched 'revITalise', a project to refresh our desktop IT environment.

An ambitious project – 'Newid' to replace our 25 year old billing system is underway and progressing well which will give Dŵr Cymru a proven and state-of-the-art platform upon which to develop further customer service improvements. So that we can control our operational systems more closely and react more quickly to incidents on our network, we have also invested in renewing and upgrading our telemetry and SCADA asset control systems, including improvements to security.

LOOKING AHEAD

// In the 12 years since Glas Cymru secured the ownership of Dŵr Cymru we have invested £4 billion – or around £2,500 per household – while striving to keep our customer bills affordable

OUR 'YOUR COMPANY, YOUR SAY' CONSULTATION EXPLAINS AND TESTS OUR FUTURE PLANS AND PRIORITIES FOR 2015–21

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PERFORMANCE

This record level of investment has maintained and improved Dŵr Cymru's £30 billion infrastructure of reservoirs, pipes, drinking water production facilities, sewers and wastewater treatment plants that we employ to provide our customers with what is an essential public service – high quality drinking water at the tap and the safe collection and cleansing of wastewater so that we protect our rivers and coastal waters from pollution

The people who work for Dŵr Cymru are proud that we are owned on behalf of our customers and the communities we serve – and that all profits go back into the business to maintain and improve services and keep bills down. The enthusiasm and dedication that follows from this pride is the key to what we achieved for our customers last year – a best ever performance overall on the measures that matter for our customers and for the environment we look after and protect from pollution on their behalf

Our aim is to demonstrate that not-for-profit ownership of the water industry can deliver both an affordable and a high quality service to the three million people who rely on us every day for what is the most essential of public services. Being trusted by our customers – because of our purpose and because of the quality of service we deliver – is at the heart of our ownership model

It was encouraging to see from recent independent research that Dŵr Cymru enjoys a very high standing with stakeholders in Wales. Being 'not-for-profit' is key to this high standing, but is not enough by itself. What matters much more is the quality and reliability of service that customers get from Dŵr Cymru. Not-for-profit is no excuse for poor service. Indeed, we believe that our different business model must be a spur to excellent service and the best possible efficiency

In the twelve years since Glas Cymru took over the ownership of Dŵr Cymru, 'customer equity' (that is, regulatory capital value less total net debt) has risen ten-fold to stand at £1.6 billion as at 31 March 2013. Prior to 2010 Dŵr Cymru paid 'customer dividends' totalling more than £150 million, and since 2010 the Company is returning value to customers totalling some £140 million in funding the additional costs that came with the transfer of private sewers and other accelerated investment as well as funding our unique range of assistance tariffs which give help to our less well off customers who are struggling to make ends meet

We have launched our 'Your Company, Your Say' consultation with our customers to explain and test our future plans and priorities for the years ahead in advance of the next regulatory price review in 2014. This is all about securing a consensus on what should be the right outcomes, the right balance between continuing investment and keeping bills affordable, tackling the issues that really matter for our customers, and agreeing on what should be addressed sooner and what will have to wait until another time

Our high standing with our customers and with other stakeholders – and the fact that our only interest is to deliver the best possible outcomes for today's customers and future generations – means that we can have an open and honest debate about the future of the water industry in the region served by Dŵr Cymru. We will inform that debate and listen and reflect what we are told in what we put forward in our plans and priorities for the years ahead

PERFORMANCE REVIEW

ON MOST OF THE MEASURES THAT MATTER FOR OUR CUSTOMERS AND OTHER STAKEHOLDERS OUR PERFORMANCE NOW RANKS US TOWARDS THE TOP OF THE INDUSTRY LEAGUE TABLES.

The regulated water industry is particularly measurable, which allows the Board to set targets for the business that are based on sector benchmarks and to judge where we stand compared with the best performers in the sector. We use a number of key measures to make up our Performance Scorecard against which – alongside the achievement of cost efficiency targets – variable pay for every member of staff is calculated. Last year we achieved or beat the targets set by the Board for 12 of the 18 measures on our Performance Scorecard.

Safe drinking water

Bacteriological compliance at WTW

2012	99.96%
2013	99.95% ✗

Reservoir Integrity Index

2012	99.97%
2013	99.98% ✓

Compliance with standard for iron at tap

2012	99.80%
2013	99.53% ✗

Mean Zonal Compliance

2011	99.96%
2012	99.96% ✓

Process Control Index

2012	99.96%
2013	100% ✓

Disinfection Index

2012	99.97%
2013	99.98% ✓

Water Quality Events - Level 3 and above

2012/13	6
2013/13	11 ✗

Safe sanitation

Sewer flooding – Other causes

2011/12	156
2012/13	151 ✗

Sewer flooding – Hydraulic overload

2011/12	30
2012/13	68 ✓

Protecting the environment

Leakage (MI/d)

2012	185
2013	185 ✓

Number of serious pollution incidents

2012	4
2013	6 ✗

Total number of pollution incidents

2012	246
2013	205 ✓

WwTWs compliant with 'Look-up' permit

2012	99.72%
2013	100% ✓

Percentage of WwTWs compliant with numeric consent

2012	97.27%
2013	98.64% ✓

Customer service

Number of customers – loss of supply > 6hrs

2012	116
2013	12,759 ✗ *

Number of written complaints

2012	4,660
2013	3,652 ✓

Number of unwanted telephone calls

2012	204,895
2013	142,059 ✓

Customer Satisfaction (SIM Qualitative)

2012	4.5
2013	4.62 ✓

At or better than target ✓ ✗

* Currently under review

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WE TAKE DECISIONS IN THE LONG TERM INTERESTS OF THE CUSTOMERS OF DŴR CYMRU, AND THIS OBJECTIVE UNDERPINS OUR WHOLE APPROACH TO CORPORATE GOVERNANCE.

We voluntarily comply with all of the provisions of The UK Governance Code 2010 (the 'Code') that apply to a company limited by guarantee. Where we cannot directly comply with the letter of the Code, principally as regards Section E which deals with the relationship with 'major shareholders', as we do not have shareholders, we aim to follow the spirit of the Code. The importance of complying with the spirit of the Code was recognised in the preamble to the 2012 version of the Code which will apply to our reporting for the financial year beginning 1 April 2013 and thereafter.

The following information, which is referred to in this report, is available on our website:

Schedule of matters reserved for decision by the Board
 Terms of reference of the Nomination Committee
 Terms of reference of the Audit Committee
 Terms of reference of the Remuneration Committee
 Terms of reference of the Quality and Environment Committee

Our Governance Structure

DŴR CYMRU IS DIFFERENT FROM OTHER WATER COMPANIES. WE DON'T HAVE SHAREHOLDERS AND WE ARE OWNED AND MANAGED ON BEHALF OF YOU AND ALL THE CUSTOMERS WE SERVE.

Our company structure

Our accounts (page 59) provide details of the following companies in our group structure

- / **Glas Cymru Cyfyngedig** was formed as a company limited by guarantee with the single purpose to acquire and manage Dŵr Cymru Cyfyngedig
- / **Glas Cymru (Securities) Cyfyngedig** is the holding company for Dŵr Cymru (Holdings) Limited and its subsidiaries
- / **Dŵr Cymru (Holdings) Limited** is the intermediate holding company of Dŵr Cymru Cyfyngedig and Dŵr Cymru (Financing) Limited
- / **Dŵr Cymru Cyfyngedig** is a wholly owned subsidiary of Glas Cymru and is the group's principal trading company. Its principal activity is the supply of water and treatment and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989
- / **Dŵr Cymru (Financing) Limited** was formed in 2001 and is the 'issuer' company for the group's bonds, which are listed on the Luxembourg Bourse. Dŵr Cymru (Financing) Limited, is incorporated in the Cayman Islands, but is managed, controlled and resident in the UK for tax purposes. The company lends the proceeds of any bond issues to Dŵr Cymru Cyfyngedig
- / **Dŵr Cymru Customer Services Limited** provides income collection and billing services to Dŵr Cymru Cyfyngedig. It commenced trading on 1 August 2012

Our Business Model is designed to deliver high quality drinking water and sewerage services at the lowest sustainable cost

As a company limited by guarantee all financial surpluses are reinvested for the benefit of our customers. We have retained profits to build up reserves to insulate Dŵr Cymru and its customers from any unexpected costs and also to improve credit quality to keep our cost of finance as low as possible. We have the best credit rating of all UK utilities

Our assets and capital investment programme are wholly financed by bonds, loans and retained profits

Our Role is to fulfil a vital function in protecting public health and the natural environment by providing a safe and reliable supply of drinking water and to deal safely with the wastewater generated by over three million people and businesses within our supply area to minimise impact on the environment

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Our industry and regulators

Dŵr Cymru is one of ten water and sewerage companies and there are also ten regional companies which supply water in certain areas

Ofwat (our economic regulator) exists to ensure that water companies provide a good quality service at a fair price. It sets price limits for customer bills to ensure that they are no higher than they need to be. It assesses the operating costs and investment we need to maintain our network of assets to meet required standards and deliver high quality services to customers. Ofwat promotes the interests of customers by incentivising efficiency and good service and penalising inefficiency and poor service.

The Consumer Council for Water (an independent body established to represent the interests of customers) investigates complaints, champions customer concerns, and audits our more general performance on customer service, as well as influencing policy.

The Welsh Government sets the framework for public policy matters for Wales, including policy and legislation on water and environmental matters.

Drinking water quality is regulated and monitored by the Drinking Water Inspectorate (DWI).

Our environmental performance, especially the way we abstract water from rivers and reservoirs and then discharge wastewater after it has been cleaned, is regulated by Natural Resources Wales (NRW – which as from 1 April 2013 replaced the Environment Agency Wales, Countryside Council for Wales and the Forestry Commission Wales). NRW oversees our management of designated sites for nature conservation and how we meet our obligations to conserve and improve biodiversity.

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Board and Members

GOOD GOVERNANCE IS FUNDAMENTAL TO ALL OF OUR ACTIVITIES, IT HELPS THE BUSINESS RUN SMOOTHLY AND AIDS EFFECTIVE DECISION MAKING. WE FOCUS ON COMPREHENSIVE RISK ANALYSIS, EFFECTIVE INTERNAL CONTROLS, GOOD COMMUNICATION AND A CULTURE OF HONESTY AND TRANSPARENCY ABOUT OUR PERFORMANCE.

Our Board has a majority of independent Non-Executive Directors who constructively challenge management. Our Membership fulfils the role of holding our Board to account.

Role of the Board

The Board is responsible for promoting the long term success of the Company.

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The Board sets the Group's strategic aims, monitors the performance of management against the strategic aims, advocates good governance, sets the risk appetite and ensures that effective controls are in place in the business.

Role of the Chairman

The role of the Chairman is to lead a unified board, facilitating meetings, and to be responsible for good governance.

Meeting Agendas are agreed in consultation with the Managing Director and Company Secretary, although any director may request that an item be added to the agenda. At least once a year, the Chairman meets with the non-executive directors without the executive directors present, to consider the performance of the executive directors and to provide feedback.

Non-Executive Directors

Non-executive directors are appointed to the board to contribute their external expertise and provide independent challenge and rigour in the board's deliberations. The non-executive directors meet at least once per year without the Chairman present, to discuss his performance.

Managing Director

The board has delegated responsibility beyond matters reserved for the Board to the Managing Director in order to achieve the company's strategy. The Managing Director is supported by the Executive Directors of Dŵr Cymru in implementing strategy.

Role of the Company Secretary

Richard Curtis was succeeded as Company Secretary in October 2012 by Nicola Williams, who joined Dŵr Cymru as General Counsel and Company Secretary. In addition to her General Counsel role, Nicola is responsible for supporting the Chairman in ensuring that the company demonstrates good governance. Nicola is available to the non-executive directors and ensures that there are good information flows to the board and its committees and between senior management and the non-executive directors. The resignation of Richard Curtis and the appointment of Nicola Williams were approved by the Board as a whole.

Role of Members

Members hold the Board to account for the stewardship of our assets, and our goal of providing a very important and essential public service to more than 3 million people in a manner which will be sustainable for future generations.

The key role of our Members is to ensure that we remain focused on our primary purpose, which is to provide efficient high quality and affordable water and sewerage services to Dŵr Cymru's customers.

Our Members are individuals, appointed by the Board but selected by an independent Member Selection Panel, which is required to maintain a balanced and diverse membership, as far as possible broadly reflective of the range of our customer and other stakeholder's interests.

Membership is personal, and therefore Members do not represent any particular group or stakeholder interest. They do not receive fees, nor do they have a financial stake in the business. We believe this independence facilitates robust governance.

There are currently 59 independent Members of Glas Cymru (under the Company's Articles of Association each Director is also a Member while they hold office as a Director).

A list of the independent Members of Glas Cymru and our Membership Policy are published on our website www.dwrcymru.com or can be obtained by writing to the Company Secretary.

The Board of Directors

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1 / John Bryant (69)*

Non-Executive Director and Chairman (Q) (R) (N - Chairman)

Appointed a Non-Executive Director in March 2001, John is a former Chief Executive of British Steel and, until December 2000, was Joint Chief Executive of Corus plc. He was a Non-Executive Director of Costain Group plc until January 2013, and was a Non-Executive Director of Bank of Wales plc between 1996 and 2001. He became Chairman on 1 May 2013.

2 / Nigel Annett (54)*

Managing Director (N) (Q)

Appointed Managing Director in January 2005, Nigel 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 Schrodgers, County Natwest and Wasserstein Perella. He has recently announced that he will step down as a Director on 31 August 2013.

3 / Chris Jones (49)*

Finance Director

Appointed Finance Director of Glas Cymru in April 2000 and of Dŵr Cymru Cyfyngedig in May 2001, Chris 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. He is a Deputy Chairman of the Council of The Prince's Trust Cymru and until April 2013 was a Non-Executive Director of the Principality Building Society. On 13 June, we announced that Chris will become CEO with effect from 1 September 2013.

4 / Peter Perry (50)*

Operations Director (Q)

Appointed Operations Director in July 2006, Peter has a civil engineering background and was formerly the Chief Operating Officer for United Utilities Operational Services (UUOS), having previously been the Operations Director 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. He is also a Director (representing Wales) at The Water Regulations Advisory Service, the national body specifying standards for materials and workmanship used in potable water supply.

5 / Prof Stephen Palmer (61)

Non-Executive Director (N) (Q - Chairman)

Appointed a Non-Executive Director in October 2009, Stephen is Professor of Epidemiology and Public Health at Cardiff University and chairs the Wales Chief Medical Officer's Health Protection Committee. From 2003-2010 he was Director of the Health Protection Agency's chemical hazards division, local and regional services division, and Head of Epidemiology. A fellow of the Faculty of Public Health and the Royal College of Physicians, he has been an influential figure in public health for over 25 years. He has a long CV of previous public health professional functions and has written many books and peer reviewed papers on infectious diseases, environment and health.

6 / Menna Richards (60)*

Senior Independent Director (N) (A)

Appointed a Non-Executive Director in November 2010, Menna is also a Non-Executive Director of the Principality Building Society, of Welsh National Opera and a Trustee of the ALOUD charity. She is a Vice-President of the Royal Welsh College of Music and Drama and Pro-Chancellor of Cardiff University. Her executive career has been in broadcasting, both public and commercial sectors. Menna was Director, BBC Cymru Wales from 2000 to 2011 and Managing Director of HTV Wales from 1997-2000.

Membership of Board Committees

(N) Nominations

(A) Audit

(Q) Quality and Environment

(R) Remuneration

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Menna is a member of the Audit Committee and takes a special interest in communications. She represents the Board on the Membership Selection Panel and also sits on the board of Dŵr Cymru Customer Services. From May 2013 Menna has become Senior Independent Director.

7 / James Strachan (59)*

Non-Executive Director (R - Chairman) (N)
Appointed a Non-Executive Director in June 2007, James is a Non-Executive Director of Towergate Insurance Limited, JP Morgan Asian Investment Trust plc and Sarasin and Partners LLP, and he is Senior Visiting Fellow in risk and regulation at the London School of Economics. Former roles include Chairman of the Audit Commission, a Non-Executive Director of the Bank of England, the Financial Services Authority, Legal and General Group plc, Care UK plc and Social Finance Limited, a Board member of Ofgem (the energy regulator), Chairman of the charity RNID and Managing Director of Merrill Lynch.

8 / Anna Walker (61)*

Non-Executive Director (N) (R)
Appointed a Non-Executive Director in March 2011, Anna has a wealth of experience in customer service, policy making and regulation. She is Chair of the Office of Rail Regulation and she completed the independent report commissioned by

government in 2008 into household water charging. Her former roles include Chief Executive of the Healthcare Commission (2004-2009), Director General, Land Use and Rural Affairs at DEFRA, Director General – Energy Group at DTI, and Deputy Director General at Oftel, the telecoms sector regulator. Anna, who was given a CB in 2003 for public service, is Chairman of the charity Young Epilepsy, and a former Non-Executive Director of Consumer Focus, the statutory consumer champion body.

9 / John Warren (59)*

Non-Executive Director (A - Chairman) (N) (R)
Appointed a Non-Executive Director in May 2012, John is a qualified accountant with more than 25 years' experience in finance roles and has extensive experience in chairing Audit Committees of major UK listed companies. Until his retirement in 2005, he was Group Finance Director for WH Smith plc and, before that, United Biscuits plc. He is currently the Senior Independent Director and Chairman of the Audit and Risk Committee at Spectris plc, and a Non-Executive Director and Chairman of the Audit Committee for Rank Group plc, Bovis Homes plc, Greencore plc and 4imprint Group plc, where he is Senior Independent Director.

10 / Robert Ayling (66)***Chairman******Non-Executive Director (N) (A) (Q) (R)****Previously Chairman****

Appointed a Non-Executive Director in April 2008, Robert became Chairman of Glas Cymru in July 2010. A solicitor by profession and with 20 years in the City of London and as a senior government legal adviser at the Department of Trade and Industry, he held a number of senior management positions at British Airways plc of which he was Group Managing Director and Chief Executive from 1993 to 2000. He is also a former Chairman of Dyson Limited and of The International Dispute Resolution Centre Limited, Sanctuary Group plc and Holidaybreak plc, a Non-Executive Director of Royal & Sun Alliance Insurance Group plc, and until April 2013 he was the Independent Chairman of HM Courts & Tribunals Service.

* Director's ages as at 31 March 2013

**Robert Ayling was Chairman until 1 May 2013

The Board agreed that Robert Ayling will take a six month leave of absence from the Board for personal reasons until 1 November 2013. Robert Ayling will remain a director of the company during the period. Our Senior Independent Director John Bryant has replaced Robert Ayling as Chairman. Menna Richards has taken on the role of Senior Independent Director until 1 November 2013.

Corporate Governance

In 2012-13, the Board had ten scheduled meetings and two meetings for ad hoc reasons. Our scheduled meetings are held over two days to give the Board the time it needs to review progress against strategic objectives and to meet key business managers. The Board visits operational assets and meets with regulators and advisors to continually update our knowledge of the business. In the past year, we have focused on the 2014 price review, innovation, LEAN, risk and Ofwat licence modifications.

Length of service

The respective periods of service of our Non-Executive Directors are shown below

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With the exception of Robert Ayling and John Bryant, all of our Non-Executive Directors are determined to be independent in character and judgement in accordance with the Code, and each is free from any business or other relationship which could compromise their independent judgement.

Robert Ayling was an independent Non-Executive Director until his appointment as Chairman in 2010. By the date of the 2013 Annual General Meeting, John Bryant, our new Chairman, will have served on the Board for 12 years and, as a result, his continued independence has been subject to particular scrutiny.

John Bryant has an in-depth knowledge of the company due to his length of service and commitment. In the opinion of the Board, John has retained independence of character and judgement and he was independent up to the point when he became Chairman in May 2013.

Chris Jones and Menna Richards served together on the Board of the Principality Building Society for a short period, until Chris stepped down as a Non-Executive Director in April 2013. Other than this, there are no cross-directorships or significant business interests in common between members of the Board.

Diversity

We are committed to promoting diversity, non-discrimination, and equality of opportunity in the way we treat employees, prospective employees, visitors, clients, customers and suppliers.

With regard to having an appropriate level of representation from women, we are making good progress toward meeting the objectives of the Davies Report. Currently, 25% of our Non-Executive Directors are women, 20% of the Executive team are women and 27% of Dŵr Cymru's wider Leadership Team are women.

The search for Board candidates is conducted by the Nomination Committee on the basis of merit, against objective criteria set for the role, and with due regard to maintaining an appropriate balance of skills and experience and to the importance of ensuring diversity of representation on the Board.

Re-election of Directors

In accordance with the code, all Directors seek re-election every year and any Director appointed during the year seeks election at the next AGM.

Conflicts of interest

Under UK company law, conflict situations must be authorised in advance to avoid a director being in breach of the statutory duty.

All directors have been advised that they must immediately disclose any conflicts, or potential conflicts, of interest. In addition, all directors sign an annual declaration and disclose their external appointments.

Attendance

	Board (12)	Remuneration (4)	Audit (4)	QEC (12)	Nomination (4)
Robert Ayling	12	4	4	7	4
Nigel Annett	11	2	3	11	-
Christopher Jones	12	1	4	9	-
Peter Perry	12	1	1	12	-
John Bryant	12	4	-	12	4
Stephen Palmer	12	-	-	12	4
Menna Richards	12	-	4	-	4
James Strachan	11	4	-	-	4
Anna Walker	11	4	-	-	3
John Warren	10	4	4	-	4

Induction and development

A personalised induction process is provided to Directors, including an information pack, site visits and one to one meetings with senior managers. The Board and committees undertake training and briefing sessions as appropriate.

Effectiveness

We carried out a Board and committee effectiveness review in March 2013.

In 2012-2013, the review took the form of a questionnaire followed by a detailed discussion at a Board meeting, following on from the report of an external board reviewer (Dr Tracy Long¹) in 2011. Our review has identified that the areas of focus for the Board remain strategy and risk. A list of the key points raised by members of the Board is being reviewed and will be brought back to the Board for consideration of progress against the issues raised, however the overall strong conclusion of the Board was that the Board itself and its committees were acting effectively.

The Non-Executive Directors met without the Chairman (Robert Ayling) present to review his effectiveness and agreed that he was effective in his role. The Chairman also met with each Non-Executive Director individually during 2012-13 to provide feedback on performance and to address any knowledge development needs.

¹ Dr Long has no other connection with the company.

Reports from the Committees

Committees

Certain responsibilities of the Board are delegated to the Board Committees which play an important role in working with management to ensure our business is financially strong and well governed, and that risks are identified and mitigated. Our principal committees are the Nomination Committee, the Audit Committee, the Quality and Environment Committee ('QEC'), the Remuneration Committee and the Finance Committee.

After each meeting, a summary of matters discussed is reported to the Board, and committee minutes are circulated to all Directors. The Company Secretary is the secretary to each committee, which can engage the services of such advisors as it needs to fulfil its responsibilities.

In addition to chairing or being a member of a committee, certain Directors commit additional time and challenge on matters of public health (Stephen Palmer), operations, engineering and procurement (John Bryant), customer service and regulation (Anna Walker), finance and audit (John Warren), finance, regulation and remuneration (James Strachan), communications and Member relations (Menna Richards) and government and regulation (Robert Ayling).

Report from the Chairman of the Nomination Committee

/ Chairman John Bryant

(Robert Ayling chaired this until 1 May 2013)

/ Members All of the Non-Executive Directors and the Managing Director

The role of this Committee is to ensure that plans are in place for orderly succession for appointment to the Board. We therefore look at the size, structure and composition of the Board (and the skills, knowledge and experience around the Board table) and, as appropriate, recommend candidates for Board appointment.

The priority this year was to find a successor for Nigel Annett as Managing Director and we engaged the services of Spencer Stuart to help us.

Last year we reported that John Bryant, the last of our original Non-Executive Directors, would stand down in 2013. In light of Robert Ayling needing to take a six month leave of absence, John will stand for reappointment for a final year and if re-elected will serve as Chairman until 1 November 2013. The search for John Bryant's successor, however, is already underway and is being led by Menna Richards with support from Spencer Stuart.²

Report from the Chairman of the Audit Committee

/ Chairman John Warren

/ Members Robert Ayling³, Menna Richards and John Bryant

The Audit Committee meets four times a year, including two meetings where we focus primarily on a review of the group's preliminary and interim financial results and related areas of judgement and accounting policy.

At each meeting, the Committee reviews the progress and findings of the external and internal audit programmes. The Audit Committee uses these progress updates to challenge management's assessment of key financial and business risks and the mitigation strategies put in place to manage them. The Finance Director, the Head of Internal Audit and the external auditors are all regular attendees at Audit Committee meetings, and the Managing Director and Operations Director attend at least one meeting each year.

A Regulatory and Compliance Report is a standing item on the agenda for each meeting of the Committee. This provides an update on substantive issues relating to water industry regulation and compliance, prosecutions and legal issues. Coverage is also given to significant insurance claims, tax compliance, fraud prevention and health and safety, as well as aspects of information management.

The Committee also receives at each meeting a separate report on any disclosures under the Board's whistleblowing policy, and monitors investigations and follow-up undertaken as a result of any whistleblowing disclosure.

Other topics routinely reviewed and subject to follow-up by the committee include business continuity, the quarterly report to Glas Cymru's investors, treasury policy and controls, and arrangements to ensure the integrity of regulatory reporting.

External audit services are provided by PricewaterhouseCoopers LLP. Our policy is that the external auditors will not be used for internal audit services, and that all non-audit work above a threshold of £25,000 will generally be subject to prior competitive tendering and approval by the chairman of the Audit Committee. As a result, I am satisfied that audit independence has not been impaired by the award of non-audit work. The total remuneration paid to the external auditors is shown allocated between Audit-related and other services audit and non-audit work on page 53 of the financial statements.

The role of independent audit is to provide assurance and to advise management and the Board on the extent to which systems of internal control and arrangements to manage risk are appropriate and operating effectively. Audit plans are focused on areas of greatest risk to the business.

The Audit Committee has approved the external and internal audit plans for 2013-14 and has met privately with the auditors (without executives present) as part of an annual review of audit independence and on the basis of this work, and regular meetings with management, we have concluded that external and internal audit services continue to be effective.

The Audit Committee also receives advice and assurance from Dwr Cymru's Reporter (Black & Veatch), in relation to regulatory reporting issues.

² Spencer Stuart were appointed to assist both with the selection of the successor to the Managing Director and with the search for a further Non-Executive Director. Spencer Stuart has no other connection with the company.

³ Robert Ayling was a member until 1 May 2013, and John Bryant has temporarily replaced him as a member of this committee until 1 November 2013.

Report from the Chairman of the Quality and Environment Committee – 2013⁴

The role of the QEC is to advise the Board on any issue relating to operational policy and practice in relation to public health and compliance with drinking water and environmental regulations and standards, together with occupational health and safety issues

The Committee comprises three Non-Executive Directors and two Executive Directors. For 2012/13, this Committee was chaired by John Bryant. From 1 May 2013, Stephen Palmer has chaired the Committee and as mentioned earlier in this report, John Bryant has become Chairman.

At each meeting of the Committee there are also regular attendees from the wider business with a range of operational responsibilities. In addition, the Board benefits from two independent scientific advisors. In 2012/13, these were Andrew Davies, who advises on water quality matters, and Professor Lynda Warren of Aberystwyth University, who advised on environmental matters. From 1 April 2013, Professor Warren stepped down from her role as scientific adviser to become a Non-Executive Director of Natural Resources Wales (which from that date combined the organisations of the Environment Agency Wales, Countryside Council for Wales and the Forestry Commission Wales). We wish Professor Warren every success in her new role. From 1 May 2013, she has been succeeded by Steve Brown, former Area Manager for South Wales at the Environment Agency Wales.

The Committee meets at various operational sites across the company's supply area. In 2012/13, these sites included Baglan, Anglesey, Caernarfon, Nelson and the company's new laboratory in Glaslyn, Newport.

Each month, the Committee reviews the company's performance in detail against key water quality, environmental performance and health and safety indicators, and monitors progress against key strategies aimed at protecting public health, safeguarding the environment, ensuring the safety of our employees and contractors and delivering efficient service to our customers.

The Committee also reviews the findings of investigations into any water quality, environmental or customer service failure (and requires a specific report from the Managing Director for those deemed serious by the Committee), and maintains oversight of the programmes of risk management and of internal and external audits. The focus of the Committee is on:

- / continuous improvement of systems and processes and ensuring staff receive appropriate training,
- / monitoring key systems and processes and ensuring appropriate management oversight,
- / ensuring that appropriate lessons are learned from performance failures,
- / ensuring that arrangements for risk management are fit for purpose to identify key risks promptly and manage them appropriately.

A marked improvement in performance over the 2012/13 period is commented upon in detail elsewhere in this Annual Report, however the topics covered by the Committee in 2012/13 included:

- / customer service
- / leakage
- / flooding
- / health & safety issues
- / pollution
- / progress on environmental issues
- / innovation

- / the importance of building relationships of trust with the company's regulators,
- / the importance of communicating the company's role and of the communications strategy as a whole,
- / the value of working on predicting and identifying emerging areas of risk. Identifying where particular areas of risk across the business will enable forward planning to deal with these areas.

Remuneration Committee

The membership and the role and responsibilities of the Remuneration Committee are described in the 2013 Remuneration Report which follows later in this report on page 33. This includes a summary of key issues discussed by the Committee in 2012-13 and of the remuneration policy and arrangements approved for 2013-14.

A report from the Chairman of the Finance Committee

/ Members: John Bryant (Robert Ayling was a member until May 2013), James Strachan, Chris Jones, John Warren

The Finance Committee is authorised to approve financing and treasury related transactions where a decision is required between meetings of the Board. In 2012-13, the Finance Committee was required to approve decisions on three occasions.

Colour photo/graphic removed

The continuing themes pursued by the Committee in reviewing these areas of the business during the year have included:

- / emphasising the benefits of adopting a systematic approach to identifying root causes of incidents and compliance failures,
- / the importance of science and innovation to improving our processes and systems and the benefits of benchmarking initiatives,

⁴ Water quality and environmental quality performance data referred to in this report is for the calendar year period 2012. Other performance information (such as customer service measures and performance against Ofwat's DG service standards) is given for the regulatory reporting year 1 April 2012 to 31 March 2013.

Internal Control

The Board has overall responsibility for the operation and effectiveness of the group's system of internal controls and risk management. The system of controls is designed to manage the risk of failure to achieve business objectives, and comprises audited policies and procedures aimed at identifying and managing the most significant risks faced by the business.

In considering the development of the system of controls, the management team reviews the materiality and the relative cost/benefit associated with each identified significant risk. The internal control systems are designed to provide reasonable assurance against misstatements or loss.

The key features of our system are typical for a business of our scale and complexity. They include:

- / consideration of acceptable risk parameters set by the Board,
- / identification of key risks and hazards which are measured and managed to an acceptable level,
- / clear management accountability for risk management, supported by regular risk reporting to the Board and to the Quality and Environment Committee,
- / controls that recognise that the nature and balance of risk changes and evolves,
- / procedures that govern the approval and control of major items of capital expenditure, the acquisition and disposal of material assets, and commitment to any arrangement that gives rise to, or could give rise to, a material liability,
- / financial systems and procedures for preparing consolidated accounts.

The Board receives assurance from independent work by Dŵr Cymru's Reporter (Black and Veatch) and from the programme of internal and quality audit, the major findings from which are reviewed at the Audit Committee and/or the Quality and Environment Committee. Risk is reassessed under a process chaired by the Managing Director, who submits an update to the Audit Committee and the Quality and Environment Committee every six months, and annually to the Board.

The process to review the effectiveness of internal control includes discussion with management on significant risk issues and a review of plans for, and results from, internal and external audit. The Audit Committee reports the results of its review to the Board which then draws its collective conclusion on the effectiveness of the system of internal controls. In fulfilling this responsibility, the Board considers periodic reports from the Audit Committee, Quality and Environment Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance. This enables the Board to review the effectiveness of the internal control system during the course of the year.

As part of the work undertaken to review its internal controls on an annual basis, the Board also considers the effectiveness of its system of internal controls with regard to how these have operated in respect of the specific challenges faced by the company over the course of the previous reporting period. For 2012/13, the Board found that the internal control processes accurately identified and enabled the management of the principal risks facing the business.

Principal Risks and Uncertainties

The Board considers that the principal risks and uncertainties affecting the business activities of the company include the following

Service delivery and asset maintenance

- / Maintaining and upgrading our service to customers as necessary, and investing to maintain our assets for future customers and to meet challenges such as population growth, climate change and ageing asset infrastructure,
- / Protecting against asset failure and the risks that this poses both to service delivery and to third party assets and people,
- / Ensuring continued service delivery despite apparent greater variability in weather conditions. This past year saw the third wettest year on record and this impacted our services. In particular, heavy rainfall contributed to an unprecedented number of major bursts to trunk mains and sewers

Legal and regulatory environment

- / Influencing and responding to regulatory and legislative change in the sector, in particular around the recently published Water Bill, in order to ensure we can deliver our future plans for the business and maintain service delivery for our customers,
- / Achieving the targets set by our regulators for the period 2010-2015 and securing the support of Ofwat for our business plan for the next investment period, 2015-2021,
- / Ensuring ongoing compliance with regulatory reporting requirements and that our processes for ensuring compliance continue to be fit for purpose, particularly in the light of some specific malpractices uncovered during the year in one part of our supply area,
- / Uncertainty around the outcome of several awaited regulatory determinations. The hearing of Albion Water's damages claim under the Competition Act 1998 in respect of its request for common carriage terms in 2000 came before the Competition Appeal Tribunal in October 2012. Judgment was handed down in March 2013. Albion was awarded £189million plus interest in damages but the Court found that its claim for exemplary damages should not succeed. Costs issues in relation to the dispute are still outstanding.

In separate proceedings, a further determination from Ofwat is currently awaited as to the correct price to be paid by Albion Water for the current supply of water by Dŵr Cymru. A determination is also awaited on the pricing of Dŵr Cymru's supply of water to Tata Steel at Llanwern.

People

- / Maintaining and improving our high levels of employee engagement (as measured in 2012-2013 employee engagement survey),
- / Continuing to support our employees to develop their skills and knowledge to be able to help us to address the future challenges facing the sector and to enable us to fulfil our service delivery obligations to customers and to meet our regulatory requirements,
- / Dealing with the challenges raised by the age profile of our employees, which means that a significant proportion will be retiring from the business over the next ten year period.

Financial risks

- / Ensuring cash collection despite the continued impact of the recent recession on our customers, which has made cash collection increasingly more difficult and has meant an increase in the support we provide to customers - over 52,000 household customers now receive assistance from one of Dŵr Cymru's social tariffs or its Customer Assistance Fund,
- / Maintaining access to capital markets during a period of regulatory uncertainty, as rating agencies have reported that structural changes could affect the sector's ratings and therefore its cost of finance.

Communication with stakeholders

Maintaining good and open relationships with Members and investors is very important. We continue to enjoy a very high attendance by Members at our six monthly Members' meetings, which gives them regular opportunity to meet the Board, at these meetings we provide presentations on company performance, developments and prospects. All Directors, including the Chairmen of the key Board committees, are available to answer questions. After each meeting, all Members receive a written

brief of issues discussed and the replies to questions asked. Between meetings, we keep Members up to date on key issues and developments through a combination of written bulletins from the Managing Director and updates delivered by email or via a confidential Members' website. This year we had an additional Members' meeting focused on the Price Review and Investment Plan for the period 2015-2021 prior to our stakeholder engagement.

Investors receive a quarterly report and each summer we host an annual investor meeting in London. 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 a Board member at any time. The Board receives a report following meetings with investors and, where appropriate, takes into account the views expressed by investors on issues affecting the company.

Regular communication is also maintained with the Welsh Government and with each of the economic, water quality and environmental, and customer service regulators of Dŵr Cymru.

Directors' Report

Our registered office is Pentwyn Road, Nelson, CF46 6LY

The Companies Act 2006 requires that the Directors' Report should include a Business Review which gives a fair review of the development and performance of the business (which is provided in the Chairman's Report and Performance Review sections of this annual report) and a description of the principal risks and uncertainties that it faces (page 30). Information regarding the operational performance of the business and our approach to sustainability and corporate responsibility provided elsewhere in this annual report is incorporated into this Directors' Report by reference to the extent necessary to fulfil the requirements of a Business Review.

Directors The names and brief biographical details of the Directors are given on page 24 of this document.

All Directors served throughout the year ended 31 March 2013. At the 2013 AGM, all of the Directors will stand for re-election. This will meet the requirement under our Articles of Association for one third of Directors to retire by rotation. It will also meet the good governance requirement that John Bryant, who have served on our Board for more than 9 years, should stand for annual re-election by Members. The Board has endorsed the effectiveness and commitment (and, in respect of the Non-Executive Directors, the independence) of the Directors and recommends each for re-election. Further details are set out in the Notice of the 2013 AGM.

No Director has, or has had, a material financial interest, directly or indirectly, in any contract significant to the Company's business and the Board has not been requested to use, and has not used, its discretion under Article 57 of Glas Cymru's Articles of Association which allows the approval of a potential conflict of interest. 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 2013 contained in this Annual Report. A resolution will be proposed at the 2013 AGM to approve the 2013 Remuneration Report.

The Company has in place Directors' and Officers' insurance giving cover against legal action brought against the Directors and an indemnity in circumstances where a director has not acted fraudulently or dishonestly. The indemnity is a qualifying indemnity for the purpose of the Companies Act and is for the benefit of all Directors. No claims have been made against this policy since the date of the last report.

Employees At 31 March 2013, Dŵr Cymru had 2,340 employees. Our success is dependent upon our having a highly committed and motivated work force and in other sections of this annual report we describe how we are engaging with employees and developing the talent and core competence of the business. During the period 2012/13 we were awarded the Essential Skills Employer Pledge award by the Welsh Government.

Occupational health and safety We are committed to high standards of occupational health and safety and over the period 2012/13 our like for like performance improved with fewer RIDDOR accidents. More information on our health and safety strategy and performance is provided in our 2013 Occupational Health and Safety Report which is available on our website.

Research and development In 2012 we set up a new Independent Environmental Advisory Panel made up of regulators, academics and environmental stakeholders to advise the business on research and environmental matters. The panel has been instrumental in assisting us with the design of our research proposals for the next investment period. The panel has also assisted us both to tap into the expertise available in such bodies and build our relationships with them, so as to leverage funding and expertise into our research. More generally, we keep abreast of the national research and development agenda by participation in water industry research initiatives, most notably through membership of UK Water Industry Research Limited which manages and coordinates the research interests of UK water companies.

Payment policy Payment terms are agreed at the start of a relationship with a supplier, and are only changed by agreement, and payment will be made in accordance with those terms, save where an invoice is contested. We will seek to remedy disputes as promptly as possible. Standard payment terms 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 2012-13, the average payment period for the Glas Cymru group was 60 days (2012: 62 days). The level of capital retentions varies from year to year and affects the average payment period for the year.

Corporate social responsibility We have a firm commitment to environmental responsibility and to being a good neighbour and a trusted partner in the communities we serve. To earn this trust we have to show that we behave fairly and responsibly in the interests of customers, that we use resources wisely, and that we make an appropriate contribution to community.

Political donations It is Board policy not to make donations to political parties or to incur political expenditure and during 2012-13 no donations or payments were made which are required to be disclosed under section 366 of the Companies Act 2006.

Welsh language scheme We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an effective standard of service in both languages. Our Welsh Language Scheme is an approved scheme under the provisions of the Welsh Language Act 1993 and we are working closely with the Welsh Language Commissioner's office to prepare for the implementation of the provisions of the Welsh Language Measure 2010.

Regulatory accounts (Dŵr Cymru) Condition F of the Instrument of Appointment under which Dŵr Cymru operates requires that we publish additional financial information as an 'appointed business'. A copy of this information is published on our website or is available on request.

Going concern The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2013 have been prepared on a going concern basis.

Auditors PricewaterhouseCoopers LLP acted as the auditors to Glas Cymru for the accounts for the year ended 31 March 2013. As part of the audit process we have confirmed that as far as each Director is aware there is no relevant audit information of which the auditors are unaware and that they have taken steps to be made 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 will be put to Members at the 2013 AGM.

Events after the financial year-end There have been no post balance sheet events. Annual General Meeting The 2013 AGM will be held on Friday 5 July 2013. The business for the AGM includes the approval of the Directors' Report and Financial Statements and the Remuneration Report for the year ended 31 March 2013, the re-election of all 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 resolutions to reappoint the auditors and to authorise the Audit Committee to fix their fees. These resolutions are all matters of ordinary business - there is no special business. Further information in respect of all resolutions is provided in the Notice of 2013 AGM sent to the Members of Glas Cymru with this report.

By order of the Board



Nicola Williams
General Counsel and Company Secretary
13 June 2013

All documents stated as available on the Company's website can be obtained from www.dwrcymru.com

2013 Remuneration Report

I am pleased to present the 2013 report from the Remuneration Committee of the Board ('the Committee') which provides details of the remuneration paid to Directors in the financial year 2012-13 and our Remuneration Policy for 2013-14

Our Remuneration Policy aims to align executive remuneration with the implementation of the Company's strategy to deliver the best possible outcomes for our customers and to protect the environment. It shows clearly how remuneration is linked to performance both annually and over the five year regulatory period that will end in March 2015 ('the AMP5 period'). AMP5 is the most challenging since privatisation and the average combined bill for Dŵr Cymru's water and sewerage customers at the end of the AMP5 period will be some £20 per household lower (before inflation) than in March 2010. To deliver this, Dŵr Cymru must reduce controllable operating costs by around 20% and at the same time continue to improve customer service performance, meet challenging serviceability targets and deliver a £1.5 billion capital investment programme. The Committee believes that the performance measures for variable pay - comprising the Company's Performance Scorecard (which includes a range of key measures covering drinking water quality, sanitation, protecting the environment from pollution and customer service), operating cost reduction, Ofwat's Service Incentive Mechanism ('SIM') measure (an industry wide measure for overall customer service and satisfaction) and growth in customer equity (i.e. financial reserves being regulatory capital value less net debt) - all support the delivery of these strategic targets.

The Committee undertook a review of remuneration arrangements in 2010-11 and following the Annual General Meeting in 2011 adopted a Policy that was designed to be appropriate for the AMP5 period. This Policy was applied throughout last year and it will be applied for 2013-14 in a way that is materially unchanged from the Policy we described in the 2012 Remuneration Report ('the AMP5 remuneration arrangements').

Key points in relation to remuneration for the financial year ending 31 March 2014

- / Executive Directors' salaries were increased by 2% in April 2013. This is less than the 3% general pay award received by staff.
- / Under the Annual Variable Pay Scheme ('AVPS') the quantum (as a percentage of salary) that can be earned in 2013-14 remains at 100% of salary. We have made some minor changes to the way that the personal/strategic element will be assessed and tightened the basis for assessing performance by reference to the AVPS Performance Scorecard and the operating cost target.
- / Under the Long-Term Variable Pay Scheme ('LTVPS') the quantum that can be earned in 2013-14 for the customer service element is unchanged at 30% of salary. The potential staged payment for the customer equity element for 2013-14 is 40% of salary. No changes to the scheme are proposed this year and, in the absence of a material change in the regulatory environment or any other extraordinary external factors, the Committee would not expect any significant change to be recommended during the AMP5 period.

The Committee remains satisfied that whilst the remuneration arrangements include variable elements linked to performance, the Policy does not encourage risk taking which is inappropriate in light of the risk profile of the Company, and ensures that remuneration levels rise and fall depending on performance. The inclusion of variable elements of pay also ensures that the Policy is sufficiently competitive to attract and retain high quality staff.

Remuneration paid in respect of the financial year ended 31 March 2013

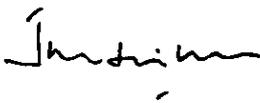
- / A base salary (which had been increased by 2% in April 2012)
- / Under the AVPS 2012/13 awards have been made equivalent to 22.3 percentage points (%) of base salary for performance against the Performance Scorecard, 28.3% for operating cost reduction and 10%-13% against Strategic and Personal objectives, making a total award of 60.6%-63.6% of base salary. This compares with a maximum of 100% of base salary and awards of 77.6% of salary for performance in 2011-12. The % award for performance against the Performance Scorecard reflects a reduction of 2.4% following the application by the Committee of clawback provisions to reflect the likelihood that for one measure on the Performance Scorecard (interruptions to water supply lasting more than 6 hours) the result previously reported for 2011-12 was overstated.
- / Under the Long Term Variable Pay Scheme 2010 ('LTVPS'), staged awards may be made under the customer equity element of the scheme (see page 38). Over the life of the scheme so far, a staged award of 10% was made in respect of performance in 2010-11, 20% was made in respect of 2011-12, and, reflecting another year of strong financial performance, 30% has been made in respect of 2012-13. Although Dŵr Cymru's provisional ranking was fourth in the Ofwat SIM league table for 2012-13, its lower ranking in Ofwat's published league tables in 2010-11 means that, based on the provisional SIM figures, there was no entitlement under the Customer Service Award (see page 40), which is calculated on a rolling three-year average basis.

Further details on how our Remuneration Policy functions and how it is implemented in practice can be found in the following Policy and Implementation Reports

The Government Department for Business, Innovation & Skills ('BIS') has produced draft regulations which will have an impact on the content and presentation of information in the Remuneration Report. Consultation is progressing and the legislation will take effect from 1 October 2013.

Though the new reporting requirements will not be directly applicable to Glas Cymru Cyfyngedig, as they apply just to UK listed companies, the Committee recognises that adoption of the disclosure requirements, where relevant, will be beneficial to our Members and other stakeholders. Accordingly, this year's Remuneration Report has been split into two sections: a Policy Report, setting out our Remuneration Policy, and an Implementation Report, setting out how the Policy has been implemented over the year to 31 March 2013. In addition, there is additional information which I hope will make the Report easier to read and assess.

We were pleased the 2011-12 Remuneration Report received a unanimous vote of approval at the 2012 Annual General Meeting ('AGM'). A resolution for the approval of both parts of this report will be put to Members by way of a single advisory vote at the 2013 AGM at which I will be happy to answer any questions. I hope that Members will continue to be supportive of this resolution and our approach to executive pay generally.



James Strachan
Chairman of the Remuneration Committee
13 June 2013

2013 Remuneration Report

This Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006 and is fully compliant with provisions of The UK Corporate Governance Code ('the Governance Code'). Furthermore, in response to the UK Government's draft legislation regarding the reporting of Directors' remuneration, we have incorporated a number of revised reporting requirements into this year's Report and the Report has been split into a Policy Report and an Implementation Report

Recommendation

The Committee remains satisfied that whilst the Remuneration Policy includes variable elements linked to performance, the Policy does not encourage risk taking which is inappropriate in light of the risk profile of the Company, and ensures that remuneration levels rise and fall depending on performance. The inclusion of variable elements of pay also ensures that the Policy is sufficiently competitive to attract and retain high quality staff. This in turn ensures that it is well aligned to the long term success of Dŵr Cymru and the interest of its customers. The Committee thus recommends this 2013 Remuneration Report for approval by the Members of Glas Cymru.

Policy Report Remuneration Policy

The current Remuneration Policy was re-approved by Members at the AGM in July 2012. The Policy aims to align executive remuneration with the implementation of the Company's strategy to deliver the best possible outcomes for our customers and to protect the environment. It shows clearly how remuneration is linked to performance both annually and over the five year regulatory period that will end in March 2015 ('the AMP5 period'). This is achieved by paying remuneration at levels which are sufficiently competitive to recruit and retain high quality staff whilst ensuring that the remuneration packages are structured so as to discourage inappropriate risk taking.

The policy is delivered by

- 1 Setting levels of base salary and total remuneration that (when assessed periodically against market benchmarking) are considered to be fair and competitive having regard to an individual's experience and responsibility
- 2 Encouraging improved performance by having a significant proportion of total remuneration being delivered via variable pay - although the majority of the package is base salary to ensure that executives are not encouraged to take inappropriate risk
- 3 Focusing incentives on the relative performance of Dŵr Cymru – based on independent information published by Ofwat, the Drinking Water Inspectorate, Natural Resources Wales, the Environment Agency and the Consumer Council for Water – thereby promoting the objective of producing sector-leading performance in a transparent and accountable way

When formulating the Remuneration Policy the Committee considers remuneration arrangements across the business as a whole and considers the impact of the Policy in light of broader social, environmental and governance issues. It should also be noted that the same Performance Scorecard used in the Executive Directors' AVPS, and a similar operating cost element, is applied in variable pay arrangements across the organisation, promoting a unified business culture and consistency in our performance assessment.

The key difference to the remuneration package for senior executives relates to participation in the LTVPS. This plan is focussed on the long term strategic and financial performance of Dŵr Cymru, which the most senior executives are more in a position to influence.

The Committee actively seeks to engage with Members and other stakeholders and values their input in helping to shape Dŵr Cymru's Remuneration Policy.

The table on page 36 provides a summary of the components constituting the Executive Directors' remuneration packages as per Dŵr Cymru's Remuneration Policy.

Summary of the components constituting the Executive Directors' remuneration packages

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To help recruit, retain and motivate high calibre employees	Reviewed annually and fixed for 12 months with effect from 1 April. Review reflects <ul style="list-style-type: none"> • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the broader workforce • Total organisational salary budgets • Takes periodic account of levels in other utilities and in the wider market 	Annual increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above this level where appropriate	None
Benefits	<ul style="list-style-type: none"> • To provide a market competitive benefits package to help recruit and retain employees • Healthcare benefits promote business continuity 	<ul style="list-style-type: none"> • Directors are entitled to private medical insurance, permanent health cover and life insurance • Directors do not receive company cars or car allowances 	N/A	None
Pension	<ul style="list-style-type: none"> • To help recruit and retain high calibre employees • Discrete post-retirement planning provision 	<ul style="list-style-type: none"> • The Company operates a defined benefit pension scheme • Where contributions would exceed either the lifetime or annual contribution limits provision is made by way of an unfunded EFRBS • Normal retirement age of 60 • New Executive Directors will be automatically enrolled in the DCWW Group Personal Pension Plan 	1/45th of salary accrual for each year of pensionable service (except Peter Perry – 1/60th) subject to maximum of 2/3rds of final pensionable salary	None
AVPS	<ul style="list-style-type: none"> • To incentivise the annual delivery of stretching financial, non-financial and strategic targets and delivery of personal objectives 	<ul style="list-style-type: none"> • AVPS targets reviewed annually by the Committee • Targets designed to relate to areas of the business over which executive has particular control • Outturn determined by the Committee after the year end based on performance against targets • Paid as cash • Not pensionable • Clawback provisions apply 	Maximum AVP potential of 100% of salary, for the achievement of stretching performance conditions	<ul style="list-style-type: none"> • For 2013 14 three components: operating cost efficiency (40%), Performance Scorecard (40%), strategic and personal (20%) • Different measures and weightings may be used in future years • See page 37, figure 2
LTVPS	<ul style="list-style-type: none"> • To align the long term interests of the Executive Directors with those of Dwr Cymru's customers and stakeholders • To incentivise achievement of value creation over the long term • To aid retention 	<ul style="list-style-type: none"> • LTVPS 2010 approved by Members • Cash awards based on stretching performance targets relating to • Rolling three year relative SIM performance • Customer equity performance over the five year regulatory period to 31 March 2015 • Clawback provisions apply 	300% of salary over the five year regulatory period to 31 March 2015	<ul style="list-style-type: none"> • 50% based on relative SIM performance • 50% based on customer equity performance • See page 38
New appointments	<ul style="list-style-type: none"> • Base salary levels will be set to reflect the experience of the individual, appropriate market data and internal relativities. If it is considered appropriate to appoint a new Executive Director on a below market salary they may be subject to a series of increases to the desired salary positioning over an appropriate timeframe subject to performance in post • Normal policy will be for the new Executive Director to participate in the remuneration structure detailed above • Should it be the case that the Remuneration Committee considered it necessary to buyout incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, would be structured so that the terms of the buyout mirrored the form and structure of the remuneration being replaced 			
Policy for payments to departing executives	<p>The Executive Directors have service contracts that are subject to a 12 month notice period and which do not provide for compensation to be payable in the event of early termination by the Company. At the Company's discretion, an Executive Director may be paid base salary alone in lieu of notice. A significant element of mitigation is built into the contract should the Company choose to exercise its option to make a payment in lieu of notice.</p> <p>When an Executive Director leaves via redundancy and is not required to work his/her notice period, he/she will be entitled to Statutory Redundancy plus 12 months' pay in lieu of notice together with pay in lieu of accrued but untaken holidays. Any accrued Annual Variable Pay or Long Term Variable Pay award payments will be made in accordance with the respective scheme rules.</p> <ul style="list-style-type: none"> • Should an Executive Director resign, he/she will be expected to work their notice period unless an alternative arrangement such as garden leave or a reduced notice period is agreed. The Executive will receive any accrued Annual Variable Pay or Long Term Variable Pay awards in accordance with the respective scheme rules. • In the event that the Company terminates the Executive's employment, the Company will take legal advice and will pay to the Executive only such amount as the Executive is legally entitled to receive. The Annual Variable Pay and Long Term Variable scheme rules in relation to leavers will apply. 			

Performance scenarios

The Committee aims to provide an appropriate proportion of the Executive Directors' total remuneration through performance-related variable pay and figure 1 shows a breakdown of the value of the various elements of the remuneration package, assuming below threshold, target and maximum levels of performance are achieved. The aim of the Committee is to provide, at a target level of performance, for around 60% of the total remuneration package to be fixed and around 40% to be variable.

Figure 1 – Executive Directors' remuneration package components

Colour photo/graphic removed

¹ Overall LTVPS award is based on 300% of salary maximum annualised over the 5 years of AMP 5

² Assume 50% of the maximum AVPS and LTVPS payout at target performance

³ Fixed pay includes pension benefit

Implementation Report

1 Remuneration Policy for Executive Directors in more detail Policy for base salary

Following a review in March 2013 the Committee has set the base salaries for the Executive Directors for 2013-14 (effective 1 April 2013) as below. This was approved in the context of an average staff increase of 3%, however, the Committee considered an increase of 2% to be more appropriate when compared to the positioning of the current base salaries and pay inflation in the executive pay market more generally.

Nigel Annett (Managing Director)
£287,254 (2012) £281,622
Christopher Jones (Finance Director)
£226,495 (2012) £222,054
Peter Perry (Operations Director)
£215,467 (2012) £211,242

Policy for variable pay

Annual Variable Pay Scheme (AVPS)

The maximum variable pay that Executive Directors can earn under the AVPS in 2013-14 is unchanged and equates to 100% of base salary. The achievement of variable pay is assessed across three components, as illustrated (figure 2).

Details of the Executive Directors variable pay awards for 2012-13 are set out under the table of 'Payments made to Directors' in this report on page 40.

Figure 2 – Annual variable pay scheme structure

Colour photo/graphic removed

Long Term Variable Pay Scheme 2010 ('LTVPS')

The objective of the LTVPS is to align the longer term aspects of total remuneration with Company performance over the course of the five year regulatory period ending on 31 March 2015. The awards comprise a cash payment. Under the LTVPS two types of cash award can be made:

- / A Customer Equity Award, which is measured by the creation of customer equity over the regulatory period. Customer equity is the group's financial reserves, i.e. regulatory capital value less net debt (as defined for the purposes of the quarterly Investor Report), and
- / A Customer Service Award, which is measured by the Company's average ranking in the Ofwat league table for SIM over the last three years. The Customer Service Award is therefore informed by and rewards the Company's relative performance compared with other companies in the sector.

The LTVPS performance targets reflect the Board's ambition that Dŵr Cymru should rank alongside the leading companies in the industry on key measures for customer service and long term financial efficiency for the benefit of customers. SIM is used for the Customer Service Award and comprises two measures of customer service. One is a qualitative measure reflecting the results of independent research carried out on behalf of Ofwat to capture customer satisfaction with the service they have received, and the other a quantitative measure which covers customer complaints and unwanted calls.

The performance targets under each of the LTVPS awards are described more fully in the table

	Customer Service	Customer Equity ^{1,4}
Performance measure	Measured by reference to Ofwat's SIM measure	Actual customer equity at 31 March 2015 (the end of the AMP5 period) compared to budget
Rationale for selected measures	Ofwat's SIM measure of consumer experience which is independent, objective and measurable, and which allows relative performance to be compared against other water companies	This is the strongest financial measure of the value of the customers' interest in the business
Performance period	3 Financial Years immediately prior to the Financial Year in which an award is made	1 April 2010 to 31 March 2015
Performance target^{2,3}	Out of UK's 10 water and sewerage companies 100% of award payable for achieving first position 75% of award payable for achieving second position 50% of award payable for achieving third position 25% of award payable for achieving fourth position 0% of award payable for a ranking of fifth or below	100% of award payable for achieving customer equity on 31 March 2015 of £100m in excess of the 2010 business plan target 0% of the award will be payable for meeting or falling short of the 2010 business plan target Straight line pro rata calculation between the business plan target and £100m above this target

¹ The customer equity target may be amended in certain circumstances at the discretion of the Committee. These circumstances include where (i) there are differences between actual inflation and the assumptions originally made, (ii) the Board had modified a relevant policy after the original forecast was made (e.g. dispersal of customer equity by way of additional investment to deliver extra benefits for customers), and (iii) there is a material influence on financial reserves that was not originally foreseen and which the Committee determines to be outside the control of the Executive Directors

² 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

³ When determining the level of any staged or final award the Committee will have regard to the rating of the group's bonds and may at its discretion defer all or part of an award if the group's bonds have been put on credit watch or downgraded

⁴ In circumstances where the Committee makes an interim or staged payment against the customer equity target but the final customer equity figure at the end of the five year performance period is less than the sum of the interim payment or payments, then such payments will be reconciled (or 'trueed-up') so that any excess sums are clawed back from participants

The period over which performance is determined and the potential payment dates over the regulatory period to 31 March 2015 are illustrated in the schematic below

Colour photo/graphic removed

Details of payments made to Executive Directors under LTVPS for 2012/13 are set out under the table of 'Payments made to Directors' in this report on page 40

Policy for pension and benefits

The Executive Directors are all members of the Dŵr Cymru Welsh Water Pension Scheme (the Scheme), which is a defined benefit scheme. The Normal Retirement Age under this scheme is 60 and benefits accrue at 1/45th of salary per year of pensionable service (except for Peter Perry who accrues at 1/60th of salary for each 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 also participate in non-contributory permanent health and private medical insurance schemes.

As previously reported, in response to the tax changes in pension tax relief for high earners, the Committee agreed that for the four executives¹ affected by these changes (including the three Executive Directors), instead of funding the cost of the pension provision throughout the executive's career (i.e. before retirement) the Company would provide for the additional value above the annual and lifetime allowances by way of an unfunded Employer Financed Retirement Benefit Scheme (EFRBS), where the cost of the pension is met by the Company after the executive's retirement.

New Executive Directors will be automatically enrolled into the DCWW Group Personal Pension Plan.

Nigel Annett

Nigel Annett will leave the Company on 31 March 2014. He will receive his accrued AVP award for the performance year 2013/2014. At the 2013 AGM a resolution will be put to Members' vote to make a payment to him reflecting his benefits accrued under the LTVPS as at 31 March 2014. This payment reflects Nigel Annett's long term contribution to the business and is considered fair on the basis that he will have completed the pro rata performance period for this stage payment for 2013-14. He will receive no other employment related payments.

¹ Richard Curtis' employment ceased in October 2012 and he is in receipt of pension benefits

Policy for Chairman and Non-Executive Director fees

The Committee determines the fee payable to the Chairman of the Board and, separately, the Executive Directors and the Chairman approve the fee level payable to the Non-Executive Directors

During the year the review of the fees payable to Non-Executive Directors resulted in fees being increased by around 1.8%. Benchmark data provided independently by New Bridge Street ('NBS') reflected the new fee as broadly in line with mid-market levels

The fees payable for the financial year that commenced on 1 April 2013 are

Chairman	£208,000	(2012 £204,000)
Senior Independent Director	£67,500	(2012 £66,300)
Non-Executive Director	£57,000	(2012 £56,000)

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

Dates of letters of appointment of the Non-Executive Directors were

Bob Ayling	3 April 2008
John Bryant	5 March 2001
James Strachan	1 June 2007
Stephen Palmer	26 October 2009
Menna Richards	22 November 2010
Anna Walker	3 March 2011
John Warren	3 May 2012

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. Christopher Jones held an appointment as a Non-Executive Director of the Principality Building Society until 30 April 2013, in respect of which he retained a fee of £43,000 per annum

2 How pay is determined what we paid in 2012-13 and link between pay and performance**Remuneration Committee**

The Committee is chaired by James Strachan. In 2012-13 the other members of the Committee were Robert Ayling, John Bryant, Anthony Hobson, Anna Walker and John Warren. John Warren was appointed a member of the Committee when he joined the Board in May 2012, and Anthony Hobson stood down in July 2012 when he retired from the Board. The Board considers that all the members of the Committee are independent and, in the case of Robert Ayling, that he was considered to be independent on his appointment as Chairman of the Company. The Managing Director and the Director of Human Resources attend meetings of the Committee by invitation (except where their own remuneration is discussed) and the Company Secretary acts as secretary to the Committee. The Committee was convened on four occasions in 2012-13.

The role of the Committee is to approve, implement and keep under review the Remuneration Policy of the Board and specifically

- a) to agree the Policy and framework and service contracts for the remuneration of the Chairman and the Executive Directors and the remuneration framework for certain senior managers (the Dŵr Cymru Executive and Leadership Teams), and
- b) to determine variable pay arrangements that encourage and recognise good performance and that rewards individuals in a fair and responsible manner for their contribution to the success of the Company

In 2012-13 the Committee received independent advice from New Bridge Street ('NBS'), a trading name of Aon Hewitt Limited (an Aon plc company). NBS advised on market best practice in the design of incentive performance arrangements, the benchmarking of Directors' remuneration and fees and provided general remuneration advice to the Committee. During 2012-13 NBS received fees amounting to £67,719 in relation to advice provided to the Committee and did not provide any other advice to the Company. The Committee also sought advice and information from Quantum Actuarial LLP (pension data). The Committee has concluded that there are no conflicts of interest in relation to this organisation supporting both the Committee and the Company in the implementation of its decisions.

During 2012-13, the activities of the Committee included

- / approving the 2012 Remuneration Report,
- / assessing performance achieved against the conditions attached to the 2011-12 AVPS and LTVPS and agreeing awards to be made to participants,
- / reviewing salaries and AVPS for the broader executive and leadership teams,
- / conducting a mid AMP review of the incentive plan structure resulting in minor changes to the Strategic and Personal element of the AVP (as described in the Policy section),
- / consideration of remuneration and pension trends and best practice,
- / determining the salary of the Executive Directors and the Chairman's fee for 2013-14, and
- / determining the total remuneration for the Managing Director and Finance Director of DCCS Ltd

At last year's AGM Members voted unanimously in favour of the Directors' Remuneration Report

Comparison of overall pay and performance

The chart, figure 3, together with the table below it shows how our pay policy has compared with performance and compares the total pay of our Managing Director to year on year growth in customer equity (i.e. financial reserves being regulatory capital value less net debt) over the previous five years

Figure 3 – Customer equity over 5 years to 31 March 2013

Colour photo/graphic removed

Relative importance of spend on pay

It is important that the Committee considers the cost of remuneration in relation to other factors such as company performance, the table in figure 4 sets out the change in total expenditure, total employee remuneration costs and customer equity in 2013 compared to 2012

	31 Mar'09	31 Mar'10	31 Mar'11	31 Mar'12	31 Mar'13
Total remuneration for Managing Director ¹	£585,094	£505,880	£618,833	£618,245	£657,890
Variable Pay (as % of maximum potential in each year)					
AVPS award	25.7%	38.2%	76.3%	77.6%	60.6%
Long Term incentives (LTVPS for AMP 5)2	53.3%	19.5%	25.0%	40.0%	50.0%

¹ Total remuneration for Managing Director includes pension benefit of £120,080

² The LTVPS percentages show the % of the maximum potential rather than the % of salary awarded

Figure 4

	Year to 31 March 2013 £m	Year to 31 March 2012 £m	£m	Change %
Total expenditure ¹	773.4	724.9	48.5	7
Employee remuneration costs	101.5	79.5	22.0	28
Customer equity ²	1,600	1,476	124	8
Executive Director remuneration costs	1.2	1.4	(0.2)	(14)

¹ Operational expenditure, capital expenditure and financing costs

² Regulatory capital value less net debt

The number of staff directly employed by the group increased by 35% from 1,931 in 2011/12 to 2,617 in 2012/13. The major reason for the increase is the transfer of some 500 roles as contracted services were brought in house. These include the income and billing, laboratory and cost consultancy services previously undertaken by third parties. The increase in employment costs associated with the in sourcing of these services is more than offset by a decrease in the cost of bought in services.

Payments made to Directors in 2012/13

The table below sets out the Directors' emoluments in respect of the year ended 31 March 2013 (excluding pension benefits)

2012/13 ^{1,2,4}	RJ Ayling	NC Annett	CA Jones	P Perry	JM Bryant	AJ Hobson	S Palmer	JM Strachan	M Richards	A Walker	J Warren	Total
Salary		£281,622	£222,054	£211,242	-	-	-	-	-	-	-	£714,918
Fees	£204,000	-	-	-	£66,300	*£15,060	£56,000	£56,000	£56,000	£56,000	*£51,190	£560,550
Benefits in kind ²		£905	£905	£905	-	-	-	-	-	-	-	£2,715
AVP ³		£170,796	£134,668	£134,449	-	-	-	-	-	-	-	£439,913
Staged payment LTVPS ⁴		£84,487	£66,616	£63,373	-	-	-	-	-	-	-	£214,476
Total emoluments relating to 2012/13	£204,000	£537,810	£424,243	£409,969	£66,300	*£15,060	£56,000	£56,000	£56,000	£56,000	*£51,190	£1,932,572
Total emoluments relating to 2011-12	£200,000	£546,781	£431,382	£410,248	£65,000	£55,000	£55,000	£55,000	£55,000	£55,000	-	£1,928,411

¹ Changes of Director in 2012-2013: John Warren was appointed a Non Executive Director on 3 May 2012. Tony Hobson retired following the AGM on 6 July 2012. (*denotes pro rata fee for financial year 2012-13)

² Benefits in kind comprise private medical insurance

³ Under the Annual Variable Pay Scheme (AVPS), in respect of performance in 2012-13 awards have been made in the current year equivalent to 22.3% of base salary for performance against the corporate Performance Scorecard, 28.3% for financial performance and 10% - 13% against Strategic and Personal objectives, making a total award of 60.6% - 63.6%. This compared to a maximum of 100% and an award of 77.6% in 2011-12.

⁴ Under the Long Term Variable Pay Scheme (LTVPS) provision has been made for a 30% staged award based on reserves at 31 March 2013, which were £1,600m, ahead of the target for 2015 and these awards are accrued for in the 2012-13 Accounts.

⁵ The highest paid Director in 2012-13 was NC Annett who received emoluments of £537,810 (2012 NC Annett £546,781). The decrease in total emoluments reflects a reduced AVP award compared to 2011-12.

⁶ Pension benefit is excluded from the payments table

Determination of 2012-13 AVP outcome

Based on overall performance against the scorecard, 55.8% of maximum was awarded (22.3% of salary)

Financial performance in 2012-13 was based on operating cost efficiency. Based on Dŵr Cymru's level of performance, 70.8% of maximum was awarded (28.3% of salary)

Based on the Committee's consideration of the performance against each of the Executive Director's strategic and personal objectives (which included delivery of the capital investment programme and improved staff awareness of the Executives' leadership and company vision for the future measured by the Engagement Survey 2012), 50% - 65% of maximum was awarded (10% - 13% of salary)

Determination of 2012-13 LTVP outcome

For the customer service element of the scheme, Dŵr Cymru's SIM rating was provisionally ranked fifth relative to the SIM rating of the other water and sewerage companies over the three year performance period to 31 March 2013. As a consequence, no award was payable. The maximum potential is 30% of salary (as per the vesting schedule as set out on page 38). However, the final SIM scores for 2012-13 have not yet been published and there is a possibility that Dŵr Cymru's ranking for 2012-13 could improve meaning that over the three year average period the final position could be fourth (leading to a payment of 7.5% of salary). The Committee will monitor this position and describe any different outcomes in next year's report.

For the customer equity element of the scheme measured from 1 April 2010 to 31 March 2015, a staged payment at the maximum of 30% of salary has been made. This has been based on the Committee's determination that customer equity at 31 March 2013 of £1,600m exceeds projections for meeting the required £100m in excess of the 2010 business plan target for full vesting over the life of the plan.

This brings the sum of the staged payments to 60% for the three years of AMP 5.

Pension benefits

Nigel Annett, Christopher Jones and Peter Perry are all members of the Dŵr Cymru Welsh Water Pension Scheme ('the Scheme'), which is a defined benefit arrangement. Their normal retirement age under this scheme is 60 and benefits accrue at 1/45th of salary per year of pensionable service (except for Peter Perry who accrues 1/60th of salary for each year of pensionable service), subject to a maximum overall pension at normal retirement age of two-thirds of final pensionable salary.

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

	Accrued Pensions (per annum) at 31 March 2013	Real increase in accrued pension in the year (net of inflation)	Transfer value at 31 March 2012	Increase in transfer value	Transfer value at 31 March 2013	Contributions paid by Director	Transfer value of real increase in accrued pension net of member contributions
NC Annett	£135,539	£6,004	£2,198,343	£405,623	£2,603,966	£25,346	£90,007
CA Jones	£89,173	£4,769	£1,145,830	£225,281	£1,371,111	£19,985	£53,345
PD Perry	£111,688	£3,305	£1,599,200	£266,915	£1,866,115	£19,012	£36,210

Notes

- 1 Disclosures are addressed to Dŵr Cymru Cyfyngedig and sets out the pension cost information required to meet the Disclosures requirements.
- 2 The work has been carried out in accordance with the generic Technical Actuarial Standards and the Pensions Technical Actuarial Standard.
- 3 Disclosures should not be used or relied upon for any other purpose and are provided solely for the purpose outlined above.
- 4 The transfer values have been calculated in accordance with the Statement of Transfer Value Principles which has been agreed by the Trustee of the Scheme.
- 5 The accrued pensions include previous service in Hyder Water and United Utilities Pension Schemes.
- 6 The accrued pension figures include both the standard entitlements within the Scheme (which are restricted in accordance with HMRC limits) and the top-up benefits which are payable under the Company's Employer Financed Retirement Benefits Scheme (EFRBS).

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

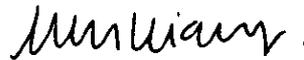
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- / select suitable accounting policies and then apply them consistently,
- / make judgements and accounting estimates that are reasonable and prudent,
- / state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- / prepare the financial statement on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statement comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statement may differ from legislation in other jurisdictions.

By order of the Board



Nicola Williams
General Counsel and Company Secretary
13 June 2013

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 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Reserves, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether

caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- / the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's profit and group and parent company's cash flows for the year then ended,
- / the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- / the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- / the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- / adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- / the parent company financial statements are not in agreement with the accounting records and returns, or
- / certain disclosures of directors' remuneration specified by law are not made, or
- / we have not received all the information and explanations we require for our audit

Other matters

The directors have requested, (because the company applies Listing Rules 9.8.6R.5 and 6 of the Financial Conduct Authority as if it were a listed company), that we review the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review by the Listing Rules of the Financial Services Authority. We have nothing to report in respect of this review.

At the request of the directors, we have also audited the Directors' Remuneration Report that is described as having been audited. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.



Katharine Finn (Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors, Cardiff
13 June 2013

Primary Statements

Consolidated Income Statement for the year ended 31 March 2013

		2013		2012	
	Note	£m	£m	£m	£m
Revenue	2		716 4		695 0
Operating costs					
- Operational expenditure	3		(295 0)		(272 5)
- Infrastructure renewals expenditure	3		(79 4)		(81 1)
- Depreciation and amortisation	3		(158 7)		(150 0)
			(533 1)		(503 6)
Operating profit			183 3		191 4
Financing costs					
- Interest payable and similar charges	4a	(141 3)		(189 7)	
- Interest receivable and similar income	4a	7 0		4 9	
- Fair value losses on derivative financial instruments	4b	(61 2)		(137 6)	
			(195 5)		(322 4)
Loss before taxation	3		(12 2)		(131 0)
Taxation	5		13 8		27 0
Profit/(loss) for the year			1 6		(104 0)

Underlying profit for the year		
(Profit before taxation, fair value adjustments and accounting profit on lease termination)		
	2013	2012
	£m	£m
Loss before taxation per Income Statement	(12 2)	(131 0)
Adjustment for		
- Fair value losses on derivative financial statements (see note 4b)	61 2	137 6
- Accounting profit on lease termination	(20 1)	-
Underlying profit for the year	28 9	6 6

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The profit of the parent company for the year was nil (2012 nil).

Consolidated Statement of Comprehensive Income for the year ended 31 March 2013

		2013		2012	
	Note	£m	£m	£m	£m
Profit/(loss) for the year			1 6		(104 0)
Actuarial gain/(loss) recognised in the pension scheme	20		2.3		(25 8)
Movement on deferred tax asset relating to pension scheme	5		(0 9)		6 2
Total comprehensive income/(expense) for the year			3 0		(123 6)

Consolidated Statement of Changes in Reserves/(Deficit) for the year ended 31 March 2013

	2013	2012
	£m	£m
(Deficit)/reserves at 1 April	(77 4)	46 2
Total comprehensive income/(expense) for the year	3 0	(123 6)
Deficit at 31 March	(74 4)	(77 4)

There were no changes in reserves of the parent company during the year (2012 none)

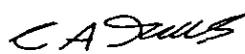
Consolidated Balance Sheet as at 31 March 2013

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Property, plant and equipment	7	3,336 1	3,231 9
Intangible assets	8	66 1	66 6
Investments	9	-	-
		3,402 2	3,298 5
Current assets			
Trade and other receivables	10	526 1	511 0
Inventory		1 6	0 9
Financial assets			
- derivative financial instruments	14	4 4	4 4
Cash and cash equivalents	11	157 4	300 5
		689 5	816 8
Liabilities			
Current liabilities			
Trade and other payables	12	(542 6)	(534 2)
Financial liabilities			
- borrowings	13	(79 7)	(77 5)
- derivative financial instruments	14	(37 9)	(25 0)
Provisions	16	(10 5)	(12 5)
		(670 7)	(649 2)
Net current assets		18 8	167 6
Non-current liabilities			
Trade and other payables	12	(67 7)	(57 3)
Financial liabilities			
- borrowings	13	(2,815 2)	(2,912 6)
- derivative financial instruments	14	(325 7)	(277 4)
Retirement benefit obligations	20	(32 8)	(31 9)
Provisions	16	(10 1)	(7 9)
		(3,251 5)	(3,287 1)
Net assets before deferred tax		169 5	179 0
Deferred tax - net	6	(243 9)	(256 4)
Net liabilities		(74 4)	(77 4)
Deficit		(74 4)	(77 4)

The financial statements on pages 44 to 73 were approved by the Board of directors on 13 June 2013 and were signed on its behalf by



N C Annett
Managing Director

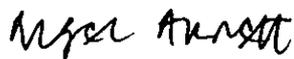


C A Jones
Finance Director

Parent Company Balance Sheet as at 31 March 2013

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Investment in subsidiaries	9b	-	-
Trade and other receivables	10	3 4	3 4
		3 4	3 4
Current assets			
Cash and cash equivalents	11	0 1	0 1
		0 1	0 1
Liabilities			
Current liabilities			
Trade and other payables	12	(3 5)	(3 5)
		(3 5)	(3 5)
Net assets			
		-	-
Reserves			
Retained earnings		-	-
Total reserves		-	-

The financial statements onn pages 44 to 73 were approved by the Board of directors on 13 June 2013 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 2013

		2013	2012
	Note	£m	£m
Cash flows from operating activities			
Cash generated from operations	17a	326 0	337 5
Interest received		7 3	4 6
Interest paid	17b	(124 5)	(98 0)
Tax received		4 2	2 5
Net cash inflow from operating activities		213 0	246 6
Cash flows from investing activities			
Purchase of property, plant and equipment		(252 4)	(185 5)
Grants and contributions received		13 7	9 5
Net cash outflow from investing activities		(238 7)	(176 0)
Net cash (outflow)/inflow before financing activities		(25 7)	70 6
Cash flows from financing activities			
Long term loans received		-	25 0
Bond issue proceeds		-	128 1
Term loan repayments		(13 5)	(13 5)
Capital element of finance lease payments		(103 6)	(7 7)
Other loan repayments		(0 3)	(0 3)
Net cash (outflow)/inflow from financing activities		(117 4)	131 6
(Decrease)/increase in net cash	18	(143 1)	202 2
Net cash at 1 April		300 5	98 3
Net cash at 31 March	11	157 4	300 5

The parent company had no cash flows during the year (2012 none)

Notes to the Financial Statements

1 Accounting policies financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2013

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

Basis of preparation

The consolidated financial statements of Glas Cymru Cyfyngedig have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Companies Act 2006 that applies to companies reporting under IFRS and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

In the year, there were no changes to the reporting framework which impact on Glas Cymru's financial statements for the year ended 31 March 2013.

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

IFRS 7	Financial Instruments Disclosures (amendment)
IFRS 9	Financial Instruments Classification and Measurement
IFRS 10	Consolidated Financial Statements
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements (amendment)
IAS 16	Property, Plant and Equipment (amendment)
IAS 19	Employee Benefits (amendment)
IAS 32	Financial Instruments Presentation (amendment)

The impact of these Standards and Interpretations is being assessed, but the directors anticipate that their adoption in future periods will have no material impact on the financial statements of the group.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and 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.

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 value of services provided to customers in the year. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the steering committee that makes strategic decisions.

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 and borrowing costs (the latter in respect of capital projects commenced after 1 April 2009, in accordance with IAS 23).

Property, plant and equipment comprise:

- Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls), and
- 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.

1 Infrastructure assets

Infrastructure assets comprise principally impounding reservoirs and a network of underground water and wastewater systems. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. The wastewater system is segmented into components representing geographical operating areas, reflecting the way the group operates its wastewater activities.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is treated as additions, which are included at cost. Expenditure incurred in repairing and maintaining the operating capability of individual infrastructure components, 'infrastructure renewals expenditure', is expensed in the year in which the expenditure is incurred.

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 60 to 150 years.

2 Other assets

Other assets are depreciated on a straight line basis over their estimated useful economic lives, which are as follows

Freehold buildings	60 years
Operational structures	5 – 80 years
Fixed plant	8 – 40 years
Vehicles, mobile plant, equipment and computer hardware and 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 systems developments, are included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met (as per IAS 38)

The carrying values of intangible assets are reviewed for impairment if circumstances dictate the carrying value may not be recovered. Intangible assets are amortised on a straight line basis over their estimated useful economic lives, which range between 3 and 20 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.

Grants and customer contributions

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets.

Grants in respect of revenue expenditure are credited to the Income statement over the same period as the related expenditure is incurred.

Capital expenditure programme incentive payments

The group's agreements with its construction partners involved in delivering capital expenditure programmes incorporate incentive bonuses payable after completion of the programmes. The cost of property, plant and equipment additions includes an accrual for incentive bonuses earned to date, relating to projects substantially completed at the year-end, where the likelihood of making the incentive payment is considered probable. Amounts recoverable from contract partners relating to targets not being achieved are recognised only on completed projects.

Trade receivables

Trade receivables are recognised initially at fair value and measured subsequently at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not significant individually. Where there is no objective evidence of impairment for an individual receivable, it is included in a group of receivables with similar credit risk characteristics and these are assessed collectively for impairment based on 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**1 Defined benefit scheme**

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 group's defined benefit scheme service cost, being the increase in the present value of the liabilities expected to arise from employee service in the period, is included in operating costs. The expected return on scheme assets and interest on scheme liabilities are included in financing costs in the income statement. Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income.

2 Defined contribution scheme

The group also operates a defined contribution scheme for those employees who are not members of the defined benefit 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 measured initially at fair value, being net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs are recognised in the income statement over the expected term of such instruments at a constant rate on the carrying amount.

Trade payables are obligations to pay for goods/services acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Derivative instruments utilised by the group are interest rate and inflation 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 (based on market price data from relevant counterparties). During the year to 31 March 2013, none of the group's derivatives qualified for hedge accounting under IAS 39 (2012: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions

Provisions for restructuring costs, dilapidations and uninsured losses are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the group receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Exceptional items

Exceptional items are those significant items which are disclosed separately by virtue of their size and/or nature to enable a full understanding of the group's financial performance.

Financing risk management objectives and policies

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

Credit risk

The group has a prudent policy for investing cash and short term bank deposits, set by the bond documentation within the Common Terms Agreement. Deposits of up to one year can be placed with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. Deposits of over one year should be placed with counterparties that have a minimum rating of AA-/Aa3/AA-

In practice, in the current economic environment the group has adopted a more prudent approach to cash management and deposits are placed for a maximum of three months with banks subject to minimum short-term rating criteria of A1/P1/F1. Bond and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. The maximum cash investment with a single counterparty was £60m (2012: £30m).

Interest rate 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. Therefore 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 £2,895m as at 31 March 2013 (2012: £2,990m) none related to floating rate debt (2012: none). The group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2013, 100% (2012 100%) of the group's gross debt was at fixed or index-linked ('RPI') rates of interest after taking into account interest rate and RPI swaps. The 'hedges' established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £359m in the balance sheet at 31 March 2013 (2012 £298m) but, assuming that the swaps are held to maturity, this will ultimately reduce to nil.

Power price hedges

The company enters into contracts which fix the price of a proportion of future power purchases in order to reduce the impact of power price variances. The company has forward-purchased around 70% of the estimated power requirement of the business over the remainder of the regulatory period to 31 March 2015. These contracts neither qualify as financial instruments under IAS 39 nor as onerous contracts under IAS 37 and, consequently, are not included in the financial statements until the contracts are effective.

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,895m (2012 £2,990m) can fall due in any 24 month period.

Liquidity risk

The group maintains committed banking facilities in order to provide flexibility in the management of its liquidity.

Under the Common Terms Agreement which governs obligations to bond holders and other financial creditors, the group is required to have cash available to fund operations for 12 months. As at 31 March 2013, the group had committed undrawn borrowing facilities of £215m (2012 £215m) and cash and cash equivalents (excluding debt service payments account) of £98m (2012 £227m).

The group has revolving credit facilities totalling £140m with a group of six banks. £50m of these facilities remain available until May 2016, with the balance of £90m until May 2017. There is also a £10m overdraft facility (2012 £10m).

As at 31 March 2013 there was also a special liquidity facility of £135m (2012 £135m), this is required in order to meet certain interest and other obligations that cannot be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants. The facility is renewable on an annual basis.

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 linked to movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2013 gearing was 63%.

In respect of the risks detailed above, further quantitative disclosures are provided in note 15.

Critical accounting estimates

The preparation of financial statements which conform to IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The 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 1%, the provision for impairment would increase or decrease by £0.6 million (2012 £0.5 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 as at 31 March 2013 would increase or reduce by £8.0 million (2012 £6.1 million).

Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2013 was £65.9 million (2012 £61.6 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.7 million (2012 £0.6 million).

2 Segmental information

The directors consider that there is only one operating segment, being the operation of water and sewerage business in the UK. As the group has only domestic activities there is also only one geographical segment, therefore, the disclosures for this segment have also already been given in these financial statements.

3 Loss before taxation

The following items have been included in arriving at the loss before taxation

	Group	
	2013	2012
Operating charges		
- Power	38 8	34 4
- Chemicals	8 4	8 8
- Materials and equipment	2 8	3 0
- Vehicles and plant	9 8	8 4
- Office expenses	6 1	3 9
- Property costs	4 1	3 9
- Insurance	7 2	4 4
- Sewerage contractors	2 8	2 0
- Water costs	4 3	5 7
- Customer services contract	5 7	20 1
- Laboratories and analytical services	3 2	5 6
- Collection commissions	3 9	4 1
- IT contracts	20 4	18 3
- Bought-in services and other costs	30 3	21 1
	147 8	143 7
Employee costs (note 19)	101 5	79 5
Staff costs capitalised	(27 3)	(21 4)
	74 2	58 1
Research and development expenditure	0 5	0 5
Trade receivables impairment	27 4	27 0
Rates	29 3	27 9
Environment Agency charges	15 6	15 1
Fees payable to auditors	0 2	0 2
Total operational expenditure	295 0	272 5
Infrastructure renewals expenditure	79 4	81 1
Depreciation and amortisation		
- Owned assets	112 0	104 8
- Under finance leases	33 9	33 9
- Amortisation of intangible assets	13 0	11 4
- Profit on disposal of property, plant and equipment	(0 2)	(0 1)
	158 7	150 0
	533 1	503 6

The customer services contract with Veolia Water Outsourcing Limited was terminated during the year and, from 1 August 2012, provided by a group company, Dŵr Cymru Customer Services Limited (DCCS). The operational expenditure of DCCS is consolidated within the relevant cost categories above and not shown as customer services contract expenditure.

Services provided by the group's auditors

During the year, the group obtained the following services from auditors

	Group	
	2013 £000	2012 £000
Audit fees		
Statutory audit of parent company and consolidated financial statements	12	11
Statutory audit of subsidiary companies	87	77
Total statutory audit fees	99	88
Audit-related fees		
Review of interim financial statements	23	22
Regulatory audit services pursuant to legislation	41	39
Investor report reviews	8	8
Bond prospectus update and bond issue	-	25
Total audit and audit-related fees	171	182
Other services		
Tax advisory services	-	14
Other	24	-
Total other services	24	14
Total cost of services provided by the group's auditors	195	196

Regulatory audit services include audit work on the Regulatory Accounts and Principal Statement

In addition to the above services, PricewaterhouseCoopers LLP acted as auditors to the DCWW 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 £13,000 (2012: £13,000).

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

4 Financing costs

a) Net interest before fair value losses on derivative financial instruments

	Group	
	2013 £m	2012 £m
Interest payable on bonds	(85 1)	(83 1)
Indexation on index-linked bonds	(38 9)	(52 1)
Interest payable on finance leases (including swaps to RPI)	(28 1)	(45 1)
Other loan interest	(12 1)	(12 1)
Other interest payable and finance costs	(2 2)	(3 9)
Net interest charge on pension scheme liabilities	(1 5)	(0 1)
Accounting profit on termination of lease	20 1	-
Capitalisation of borrowing costs under IAS 23 (2013 4.9%, 2012 6.8%)	6 5	6 7
	(141 3)	(189 7)
Interest receivable	7 0	4 9
Net interest payable before fair value adjustments	(134 3)	(184 8)

b) Fair value losses on derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. Consequently, the group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 14 in respect of derivative financial instruments held on the balance sheet.)

	Group	
	2013 £m	2012 £m
Fair value losses on interest rate swaps	(12 5)	(35 3)
Fair value losses on index-linked swaps	(48 7)	(102 3)
Total fair value losses on derivative financial instruments	(61 2)	(137 6)

Interest rate swap losses are caused by a fall in long-term swap rates, while the index-linked swap losses result from a fall in the value of index-linked gilts and fluctuations in 3-month LIBOR.

5 Taxation

Analysis of credit in the year

	Group	
	2013 £m	2012 £m
Current tax		
- Current period	-	14
- Adjustment in respect of prior years	0.4	2.5
	0.4	3.9
Deferred tax		
- Origination and reversal of timing differences	2.4	35.4
- Adjustment in respect of prior year	(0.6)	(30.3)
- Effect of tax rate change	10.7	24.3
Total deferred tax (note 6)	12.5	29.4
Taxation credit	12.9	33.2
Analysed as		
Credit to Income Statement	13.8	27.0
Charge to Statement of Comprehensive Income	(0.9)	6.2
	12.9	33.2

Tax trading losses carried forward as at 31 March 2013 are circa £400m (2012 circa £400m)

The effective rate of tax for the year is lower (2012 lower) than the standard rate of corporation tax in the UK (2013 24%, 2012 26%) The differences are explained below

	Group	
	2013 £m	2012 £m
Loss before tax	(12.2)	(131.0)
Loss before tax multiplied by the corporation tax rate in the UK of 24% (2012 26%)	(2.9)	(34.1)
Effect of		
- Adjustments in respect of prior years	0.2	27.9
- Other permanent differences	(0.2)	1.1
- Effect of tax rate change	(10.9)	(21.9)
- Movement on deferred tax asset relating to pension scheme	0.9	(6.2)
Total taxation credit	(12.9)	(33.2)

6 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2012 24%)

The movement in the deferred tax provision is as shown below

	Group	
	2013 £m	2012 £m
At 1 April	256.4	285.8
Credit to Income Statement	(13.4)	(23.2)
Charge to Statement of Comprehensive Income	0.9	(6.2)
At 31 March	243.9	256.4

	Group	
	2013 £m	2012 £m
Effect of		
- Tax allowances in excess of depreciation	441.7	450.3
- Capital gains rolled over	3.7	3.8
	445.4	454.1
- Deferred tax on tax losses carried forward	(109.3)	(114.5)
- Deferred tax on losses on derivative financial instruments	(82.9)	(71.9)
- Pensions	(7.4)	(7.7)
- Other tax differences	(1.9)	(3.6)
Net provision for deferred tax	243.9	256.4

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. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future periods.

The Government has announced that the corporation tax rate will gradually reduce from 23% to 20% with effect from 1 April 2015, and these proposals are contained in this year's Finance Bill. Assuming that the change to the corporation tax rates is enacted later this year, the effect of the 3% reduction in tax rates will be taken into account for the year ended 31 March 2014 in calculating the deferred tax provision at that date. As at 31 March 2013, a 3% reduction in corporation tax rates would reduce the deferred tax provision by circa £30 million.

The change in corporation tax to 23% has been substantively enacted at the balance sheet date and as such has been recognised in these financial statements.

The company has no deferred tax balance.

7 Property plant and equipment

Group					
Current year					
	Freehold land & buildings	Infrastructure assets	Operational structures	Plant, equipment, computer hardware	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2012	35 1	1,627 1	2,920 7	237 4	4,820 3
Additions net of grants and contributions	0 6	53 2	196 7	1 4	251 9
At 31 March 2013	35 7	1,680 3	3,117 4	238 8	5,072 2
Accumulated depreciation					
At 1 April 2012	17 9	212 3	1,132 8	225 4	1,588 4
Charge for the year	0 4	24 3	113 3	9 7	147 7
At 31 March 2013	18 3	236 6	1,246 1	235 1	1,736 1
Net book value					
At 31 March 2013	17 4	1,443 7	1,871 3	3 7	3,336 1

The net book value of property, plant and equipment includes £140 1m in respect of assets in the course of construction (2012 £106 8m)

The net book value of property, plant and equipment includes £20 2m of borrowing costs capitalised in accordance with IAS 23 (2012 £16 6m), of which £6 2m were additions in the year (2012 £6 2m)

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000km of private drains and sewers has increased the size of the network significantly. Little information is available to judge the condition of those sewers – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the regulatory capital value of the business, a value of nil has been attributed to these assets in the financial statements as at 31 March 2013 (2012 nil)

Current year					
	Freehold land & buildings	Infrastructure assets	Operational structures	Plant, equipment, computer hardware	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2011	34 9	1,586 8	2,770 6	234 7	4,627 0
Additions net of grants and ontributions	0 2	40 3	150 1	2 7	193 3
At 31 March 2012	35 1	1,627 1	2,920 7	237 4	4,820 3
Accumulated depreciation					
At 1 April 2011	17 3	188 4	1,037 1	205 3	1,448 1
Charge for the year	0 6	23 9	95 7	20 1	140 3
At 31 March 2012	17 9	212 3	1,132 8	225 4	1,588 4
Net book value					
At 31 March 2012	17 2	1,414 8	1,787 9	12 0	3,231 9

Assets held under finance leases

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

Group

Current year	Infrastructure assets	Operational structures	Total
	£m	£m	£m
At 31 March 2013			
Cost	611.8	307.7	919.5
Accumulated depreciation	(82.4)	(170.0)	(252.4)
Net book value	529.4	137.7	667.1

Prior year	Infrastructure assets	Operational structures	Total
	£m	£m	£m
At 31 March 2012			
Cost	611.8	483.9	1,095.7
Accumulated depreciation	(74.7)	(251.6)	(326.3)
Net book value at 31 March 2012	537.1	232.3	769.4

The parent company owns no property, plant or equipment

8 Intangible assets**Group**

Current year	Cost	Amortisation	Net book value
	£m	£m	£m
At 1 April 2012	142.2	(75.6)	66.6
Additions/(charge for the year)	12.5	(13.0)	(0.5)
At 31 March 2013	154.7	(88.6)	66.1

Prior year	Cost	Amortisation	Net book value
	£m	£m	£m
At 1 April 2011	129.6	(64.2)	65.4
Additions/(charge for the year)	12.6	(11.4)	1.2
At 31 March 2012	142.2	(75.6)	66.6

Intangible assets comprise computer software and related system developments

The net book value of intangible assets includes £13.0m in respect of assets in the course of construction (2012 £12.9m). The net book value of intangible assets includes £1.1m of borrowing costs capitalised in accordance with IAS 23 (2012 £0.9m), of which £0.3m were additions in the year (2012 £0.5m).

The parent company owns no intangible assets

9 Investments**(a) Group**

	2013	2012
	£m	£m
Cost and net book value		
At 1 April and 31 March	-	-

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

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

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 (100% holding) and has indirect investments in the following subsidiary undertakings

	Principal activities	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	Dormant	England and Wales	100%
Dŵr Cymru Customer Services Limited	Income and billing services	England and Wales	100%

Further information on the group's structure is available in the Annual Report on page 22

10 Trade and other receivables

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Current				
Trade receivables	498.5	487.7	-	-
Provision for impairment of receivables	(61.4)	(54.6)	-	-
Trade receivables - net	437.1	433.1	-	-
Prepayments and accrued income	72.1	66.3	-	-
Corporation tax	-	3.8	-	-
Other receivables	16.9	8.7	-	-
	526.1	511.0	-	-
Non-current				
Amounts receivable from group undertakings	-	-	3.4	3.4
	-	-	3.4	3.4
Total trade and other receivables	526.1	511.0	3.4	3.4

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

As at 31 March 2013, based on a review of historical collection rates it was considered that £61.4m of trade receivables were impaired and these have therefore been provided for (2012 £54.6m). The impaired receivables relate mainly to the supply of measured and unmeasured water. Trade receivables aged greater than one month are past due, the net column shows amounts deemed not to be impaired.

The ageing of receivables was as follows

Current year	Total	Provided for	Net
Trade receivables	£m	£m	£m
Billed in advance	389.9	-	389.9
Under one month	16.8	(4.2)	12.6
Between one and six months	31.1	(13.1)	18.0
Between six months and one year	22.6	(9.9)	12.7
Between one and two years	22.3	(18.7)	3.6
Between two and three years	14.5	(14.2)	0.3
Over three years	1.3	(1.3)	-
	498.5	(61.4)	437.1

Prior year	Total	Provided for	Net
Trade receivables	£m	£m	£m
Billed in advance	389.3	-	389.3
Under one month	15.9	(3.5)	12.4
Between one and six months	26.9	(11.5)	15.4
Between six months and one year	19.5	(7.5)	12.0
Between one and two years	20.8	(17.2)	3.6
Between two and three years	13.8	(13.4)	0.4
Over three years	1.5	(1.5)	-
	487.7	(54.6)	433.1

The maximum exposure to credit risks at the reporting date is the carrying value of each class of receivable mentioned above
The group does not hold any collateral as security

Movements in the provision for impairment of trade receivables are as follows

	2013	2012
	£m	£m
At 1 April	54.6	48.1
Charge to Income Statement	26.7	26.2
Receivables written off during the year as uncollectable	(19.9)	(19.7)
At 31 March	61.4	54.6

The creation and release of provision for impaired receivables have been included in operational expenditure

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

During the year the group has written off £19.9m of debt which had been provided for in full (2012: £19.7m)

11 Cash and cash equivalents

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Cash at bank and in hand	(13.7)	(15.9)	0.1	0.1
Short-term deposits	171.1	316.4	-	-
	157.4	300.5	0.1	0.1

The effective interest rate on short-term deposits as at 31 March 2013 was 0.4% (2012 0.7%) and these deposits had an average maturity of 12 days (2012 31 days). All cash and cash equivalents are held in sterling.

12 Trade and other payables

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Current				
Trade payables	49.3	47.7	-	-
Capital payables	33.9	27.2	-	-
Amounts due to group undertakings	-	-	3.5	3.5
Taxation and social security	3.4	2.8	-	-
Accruals and deferred income	456.0	456.5	-	-
	542.6	534.2	3.5	3.5

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Non-current				
Deferred income	67.7	57.3	-	-

13 Financial liabilities – borrowings

	Group	
	2013	2012
Current	£m	£m
Interest accruals	51.3	51.5
Unamortised bond premium	0.6	0.6
Unamortised bond issue costs	(0.3)	(0.3)
European Investment Bank loans	13.5	13.5
Local authority loans	0.3	0.4
Finance lease obligations	14.3	11.8
	79.7	77.5

	Group	
	2013	2012
Non-current	£m	£m
Interest accruals	38.5	40.7
Bonds	1,938.4	1,899.3
Unamortised bond premium	8.4	9.0
Unamortised bond issue costs	(5.6)	(5.9)
KfW Bank loan	35.0	35.0
European Investment Bank loans	197.5	211.0
Local authority loans	1.0	1.2
Finance lease obligations	602.0	722.3
	2,815.2	2,912.6

The parent company has no borrowings

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

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

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

The group's Class A Bonds of £969.5m (2012: £950.5m) benefit from a guarantee from MBIA UK Insurance Limited ('MBIA'). MBIA's credit rating has been reduced to B3 and BBB+ by Moody's and S&P respectively, and is no longer rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A3/A/A from Moody's, S&P and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the MBIA guarantee, and is the same as the credit ratings of the group's Class B bonds of £968.9m (2012: £949.0m)

14 Derivative financial instruments

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges under IAS 39 and movements in their fair value are taken to the Income Statement (see note 4b). The fair values of all derivative financial instruments held by the group are the result of mark-to-market pricing by the issuing counterparties and as such fall within level 2 of the fair value hierarchy set out in IFRS 7.

Group - 2013	Fair values	
	Assets	Liabilities
	£m	£m
Current		
Index-linked swaps	4.4	(26.5)
Interest rate swaps	-	(11.4)
	4.4	(37.9)
Non-current		
Index-linked swaps	-	(240.0)
Interest rate swaps	-	(85.7)
	-	(325.7)
Total	4.4	(363.6)

Group - 2012	Fair values	
	Assets	Liabilities
	£m	£m
Current		
Index-linked swaps	4.4	(16.3)
Interest rate swaps	-	(8.7)
	4.4	(25.0)
Non-current		
Index-linked swaps	-	(206.3)
Interest rate swaps	-	(71.1)
	-	(277.4)
Total	4.4	(302.4)

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 such embedded derivatives as per IAS 39.

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

Interest rate swaps

At 31 March 2013 an interest rate swap fixes the interest rate on £192m (2012: £192m) of floating liabilities held by the group. The maturity date of the swap is 31 March 2031 and the quarterly LIBOR fixed interest rate is 5.67%. In addition, £50m (2012: £50m) of finance lease liabilities have been swapped from a floating to a fixed LIBOR rate of 3.57% until March 2017. The notional amount of the swap is £50m (2012: £50m).

Index-linked swaps**Finance lease swaps**

The index-linked swaps have the effect of index-linking the interest rate on £439m (2012 £549m) of finance lease liabilities by reference to the Retail Prices Index ('RPI')

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2013 is £441m (2012 £528m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2013. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The principal terms are as follows

Notional amount	£441m amortising (2012 £528m amortising)
Average swap maturity	24 years (2012 24 years)
Average interest rate	1.63% fixed plus RPI (2012 1.59% fixed plus RPI)

On 17 December 2012 the group repaid two leases which were index-linked through inflation swaps. These inflation swaps have a notional value of £87 million (2012 £99 million) and have been reallocated to index-linked European Investment Bank debt.

Bond swap

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

The principal terms are as follows

Indexed notional amount	£124m (2012 £120m)
Swap maturity	44 years (2012 45 years)
Interest rate	1.35% indexed by RPI (2012 1.35% indexed by RPI)

15 Financial risk management

The policies of the group in respect of financial risk management are included in the accounting policies note on page 50.

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

	2013	2012
Assets		
Cash and cash equivalents	0.4%	0.7%
Liabilities		
Bonds	5.1%	5.0%
European Investment Bank loans	1.0%	1.3%
KfW loan	1.2%	1.7%
Local authority loans	6.0%	5.1%
Finance lease obligations	1.2%	2.0%

Trade and other receivables and payables are non interest-bearing.

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 14. They also exclude the indexation charge applicable to the index-linked bonds.

b) Liquidity risk

Group - 2013	Within 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£m	£m	£m	£m	£m
Assets					
Cash and cash equivalents	157 4	-	-	-	157 4
Trade and other receivables	526 1	-	-	-	526 1
	683 5	-	-	-	683 5
Liabilities					
Bonds	0 6	0 7	1 8	1,944 3	1,947 4
KfW Bank loan	-	-	35 0	-	35 0
European Investment Bank loans	13 5	15 9	53 5	128 1	211 0
Local authority loans	0 3	0 3	0 5	0 2	1 3
Finance lease obligations	14 3	43 3	83 8	474 9	616 3
Trade and other payables	505 3	1 8	4 7	61 2	573 0
	534 0	59 6	173 7	2,616 7	3,384 0
Group - 2012					
	Within 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£m	£m	£m	£m	£m
Assets					
Cash and cash equivalents	300 5	-	-	-	300 5
Trade and other receivables	507 2	-	-	-	507 2
	807 7	-	-	-	807 7
Liabilities					
Bonds	0 6	0 7	1 8	1,905 8	1,908 9
KfW Bank loan	-	-	35 0	-	35 0
European Investment Bank loans	13 5	13 5	47 9	149 6	224 5
Local authority loans	0 4	0 3	0 5	0 4	1 6
Finance lease obligations	11 8	16 0	118 5	587 8	734 1
Trade and other payables	504 2	1 8	4 7	50 8	561 5
	530 5	32 3	208 4	2,694 4	3,465 6

The minimum lease payments under finance leases fall due as follows

	2013	2012
	£m	£m
Gross finance lease liabilities		
Within one year	21 1	26 7
Between two and five years	153 9	192 0
After five years	542 4	719 8
	717 4	938 5
Future interest	(101 1)	(204 4)
Net finance lease liabilities	616 3	734 1
Net finance lease liabilities are repayable as follows		
Within one year (note 14)	14 3	11 8
Between two and five years	127 1	134 5
After five years	474 9	587 8
Total over one year (note 14)	602 0	722 3

c) Fair values

The fair values of the group's derivative financial instruments are set out in note 14. The following table summarises the fair value and book value of the group's bonds

	2013		2012	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Bonds (note 14)	1,947 4	2,498 7	1,908 9	2,268 9

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

d) Borrowing facilities

As at 31 March 2013, the group had available undrawn committed borrowing facilities of £215m expiring as set out below, in respect of which all conditions precedent had been met (2012: £215m)

	2013	2012
	£m	£m
Expiring in less than 1 year		
- term loan facility	75	75
Expiring in more than 1 year		
- revolving credit facilities	140	140
	215	215

Dŵr Cymru Cyfyngedig also has a £10m overdraft facility renewable on an annual basis

The group has £140 million of revolving credit facilities, of which £50 million is available to be drawn until May 2016 and £90 million is available until May 2017

At 31 March 2013, Dŵr Cymru (Financing) Limited had a special liquidity facility of £135m (2012: £135m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

All of the above facilities are at floating rates of interest

e) Capital risk management

Gearing ratios

	2013	2012
	£m	£m
Total borrowings	(2,895)	(2,990)
Less cash and cash equivalents	157	301
Net debt	(2,738)	(2,690)
Regulatory capital value (RCV)	4,344	4,171
Total capital	1,606	1,482
Less unamortised bond costs	(6)	(6)
Total capital per bond covenants	1,600	1,476
Gearing ratio	63%	65%

As set out on page 51, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV

16 Provisions

	Restructuring provision	Dilapidation provision	Uninsured loss provision	Other provisions	Total
	£m	£m	£m	£m	£m
At 1 April 2012	10.5	2.0	5.6	2.3	20.4
Charged to income statement	-	0.1	4.3	2.5	6.9
Utilised in year	(3.5)	-	(2.7)	(0.5)	(6.7)
At 31 March 2013	7.0	2.1	7.2	4.3	20.6
Split as					
Amounts to be utilised within one year	7.0	-	2.0	1.5	10.5
Amounts to be utilised after more than one year	-	2.1	5.2	2.8	10.1
At 31 March 2013	7.0	2.1	7.2	4.3	20.6

The parent company has no provisions at 31 March 2013 (2012: £nil)

Restructuring provision

This provides for the costs of terminating the outsourced contracts with United Utilities Operational Services and Kelda Water Services in the year to 31 March 2011 along with the estimated restructuring costs associated with a reduction in the headcount by some 300

Dilapidations provision

This provision relates to estimated dilapidation costs, which will be incurred over the next five years

Uninsured loss provision

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

Other provisions

Other provisions are made for certain other obligations which arise during the ordinary course of the group's business

17 Net cash inflow from operating activities**a) Cash generated from operations****Reconciliation of operating profit to cash generated from operations**

	Group	
	2013	2012
	£m	£m
Operating profit	183.3	191.4
Adjustments for		
- Depreciation and amortisation	158.7	150.0
- Changes in working capital		
Increase in trade and other receivables	(18.8)	(23.1)
(Increase)/decrease in inventory	(0.7)	0.5
Increase in trade and other payables	1.7	30.2
Pension contributions below/(above) service cost	1.6	(10.6)
Increase/(decrease) in provisions	0.2	(0.9)
	(16.0)	(3.9)
Cash generated from operations	326.0	337.5

b) Interest paid

	Group	
	2013	2012
	£m	£m
Interest payable per income statement	141.3	189.7
Less non-cash items		
- Indexation on index-linked bonds	(38.9)	(52.1)
- Amortisation of bond issue costs	(0.3)	(0.4)
- Interest charge on pension scheme liabilities	(1.5)	(0.1)
- Amortisation of bond issue premium	0.6	0.6
- Effect of capitalisation under IAS 23	6.5	6.7
- Accounting profit on lease termination	14.4	-
- Decrease/(increase) in accruals	2.4	(46.4)
	(16.8)	(91.7)
Interest paid	124.5	98.0

18 Analysis and reconciliation of net debt

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

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Cash and cash equivalents	157.4	300.5	0.1	0.1
Debt due after one year	(2,174.7)	(2,149.6)	-	-
Debt due within one year	(14.1)	(14.2)	-	-
Finance leases	(616.3)	(734.1)	-	-
Accrued interest	(89.8)	(92.2)	-	-
	(2,894.9)	(2,990.1)	-	-
Net (debt)/cash	(2,737.5)	(2,689.6)	0.1	0.1

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

	Group		Company	
	2013	2012	2013	2012
	£m	£m	£m	£m
Net (debt)/cash at start of year	(2,689.6)	(2,662.5)	0.1	0.1
Movement in net cash	(143.1)	202.2	-	-
Movement in debt arising from cashflows	117.4	(131.6)	-	-
Movement in net debt arising from cash flows	(25.7)	70.6	-	-
Movement in accrued interest	2.4	(46.4)	-	-
Indexation of index-linked debt	(38.9)	(52.1)	-	-
Accounting profit on lease termination	14.4	-	-	-
Other non-cash movements	(0.1)	0.8	-	-
Movement in net debt during the year	(47.9)	(27.1)	-	-
Net (debt)/cash at end of year	(2,737.5)	(2,689.6)	0.1	0.1

19 Employees and Directors**Staff costs for the group during the year**

	2013	2012
	£m	£m
Wages and salaries	82.5	67.1
Social security costs	7.0	5.4
Other pension costs	12.0	7.0
	101.5	79.5

Of the above, £27.3m (2012: £21.4m) has been capitalised

	2013	2012
	Number	Number
Average monthly number of people employed by the group (including executive directors)		
Regulated water and sewerage activities	2,617	1,931

Since Glas Cymru was formed in 2001 income and billing services have been provided by Veolia Water Outsourcing Limited (VWO). On 1 August 2012 some 400 VWO employees TUPE transferred into Dŵr Cymru Customer Services Limited (a wholly owned subsidiary of Dŵr Cymru Cyfyngedig) following the termination of the customer services contract.

20 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 31 December 2005 and a new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2011 by Robert Davies of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2013 and the principal assumptions made by the actuaries were:

	2013	2012
Discount rate	4.5%	5.0%
Inflation assumption	3.2%	3.2%
Rate of increase in pensionable salaries	3.2%	3.7%
Rate of increase in pensions in payment	3.1%	3.1%
Post retirement mortality (life expectancy)		
- Current pensioners aged 65 - males	86.9 years	87.7 years
- Current pensioners aged 65 - females	89.6 years	90.4 years
- Future pensioners aged 65 (currently aged 45) - males	89.8 years	90.7 years
- Future pensioners aged 65 (currently aged 45) - females	92.5 years	93.3 years

Post retirement mortality assumptions are based on those in published actuarial tables 'PA92', relevant to members' year of birth with long cohort adjustments.

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

	2013		2012	
	Expected return	% of total assets	Expected return	% of total assets
Equities	6.5%	54.8%	6.5%	50.8%
Bonds	5.0%	28.6%	5.0%	13.0%
Other	3.0%	16.6%	3.0%	36.1%

The amounts recognised in the Income Statement are as follows

	2013	2012
	£m	£m
Current service cost (excluding member contributions)	10.6	8.9
Past service cost	2.2	1.5
	12.8	10.4
Utilisation of restructuring provision	(2.2)	(2.1)
Total included within staff costs	10.6	8.3
Interest cost	14.2	13.3
Expected return on plan assets	(12.7)	(13.2)
Total included within interest payable and similar charges	1.5	0.1
Total recognised in the Income Statement	12.1	8.4

Note that the defined contribution scheme charge of £0.9m (2012: £0.4m) has also been included within staff costs

The amounts recognised in the Statement of Comprehensive Income are as follows

	2013	2012
	£m	£m
Actuarial gain/(loss) on plan assets	17.9	(9.5)
Actuarial loss on defined benefit obligation	(15.6)	(16.3)
Total recognised in the Statement of Comprehensive Income	2.3	(25.8)

The total amount recognised in the Balance Sheet is made up as follows

	2013	2012
	£m	£m
Present value of funded obligations	(323.3)	(272.8)
Plus unrecognised prior service costs	-	0.1
Fair value of plan assets	291.2	240.8
Net liability recognised in the Balance Sheet	(32.1)	(31.9)
EFRBS unfunded liability	(0.7)	-
Net liability recognised in the Balance Sheet	(32.8)	(31.9)

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

	2013	2012
	£m	£m
At 1 April	272.8	238.6
Current service cost (including member contributions)	11.1	9.3
Past service cost (vested benefits)	2.2	1.4
Interest cost	14.1	13.3
Benefits paid (net of transfers in)	(6.4)	(6.1)
Bulk transfer of liabilities	13.8	-
Actuarial loss	15.7	16.3
At 31 March	323.3	272.8

Changes in the fair value of plan assets are as follows

	2013	2012
	£m	£m
At 1 April	240.7	222.9
Expected return on plan assets	12.6	13.2
Contributions (including member contributions)	11.7	20.3
Benefits paid (net of transfers in)	(6.4)	(6.1)
Bulk transfer of assets	14.7	-
Actuarial gain/(loss) on plan assets	17.9	(9.5)
At 31 March	291.2	240.7

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

	2013	2012
	£m	£m
At 1 April	31.9	15.5
Total charge to Income Statement (including utilisation of restructuring provision)	14.3	10.5
Total charge to Statement of Comprehensive Income	(2.3)	25.8
Bulk transfer (net liability)	(0.6)	-
Contributions paid (excluding member contributions)	(11.2)	(19.9)
At 31 March	32.1	31.9

	2013	2012	2011	2010	2009
Experience adjustments arising on scheme assets					
Amount (£m)	17.9	(9.5)	(8.2)	10.0	(9.3)
Percentage of scheme assets	(6%)	(4%)	(4%)	21%	(29%)
Experience adjustments arising on scheme liabilities					
Amount (£m)	(15.7)	(16.4)	3.6	11.5	(1.1)
Percentage of the present value of scheme liabilities	(5%)	(6%)	2%	21%	(3%)
Present value of scheme liabilities (£m)	323.3	272.8	238.4	54.8	40.1
Fair value of scheme assets (£m)	291.1	240.7	222.9	46.8	32.3
Deficit (£m)	(32.1)	(31.9)	(15.5)	(8.0)	(7.8)

The contributions paid in the year to 31 March 2013 include a special contribution of £0.5m (2012 £2.6m). A further £0.9m was paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2012 £8.0m). The special contribution expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2014 amounts to nil.

21 Capital and other financial commitments

The group's business plan at 31 March 2013 shows net capital expenditure and infrastructure renewals expenditure of £313m (2012 £310m) 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.

22 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. The parent company has not entered into transactions with any other group company during the year (2012 none).

23 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.

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. As at 31 March 2013 the market value of the trust fund was £112m (2012 £110m).

Interest receivable includes £4.6m (2012 £2.7m) in respect of distributions from the Elan Valley Trust Fund.

25 Contingent liabilities

There were no contingent liabilities other than those arising from in ordinary course of the group's business and on these no material losses are anticipated.