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Report and Accounts

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Chairman's statement

Our sole purpose, as the owner of Dŵr Cymru Welsh Water, is to achieve the highest standards possible at the lowest possible cost. We are able to take this single-minded approach because unlike every other water company in England and Wales, we have no shareholders and after paying interest on our loan capital, we can spend and invest all our surpluses for the benefit of customers, present and future. (I emphasise "future" because some of what we invest may not directly benefit customers for many years.) We are neither a co-operative nor an employee owned company. We are a private company providing public services but with no private interest in our profits.

I am therefore pleased to be able to report once again that we have kept average annual price increases below the level of inflation and achieved a very strong operational performance. Last year, we were again ranked joint second in the Ofwat league table for customer satisfaction.

Our major pre-occupation last year, in addition to our day to day operating performance, was to achieve the best possible outcome from the Ofwat five yearly price review, best that is from our customers' point of view. We were therefore pleased that our draft plan for Ofwat achieved a 94% approval rating from customers whom we consulted and that the

final determination of Ofwat was so similar to our own plan. The effect of this will be that at the end of the new review period in 2020, Welsh Water will have reduced its bills in real terms for 10 consecutive years and with customers having historically faced some of the highest average bills in England and Wales (largely due to the wastewater element of the bill), we will have improved our relative position to be in the middle of the pack among our peers.

I am also pleased that we have recorded our best ever environmental performance and are now leading the industry with innovative approaches to some of the biggest challenges we all face - catchment management and sustainable drainage. We have achieved this whilst maintaining high quality drinking water, exceeding our leakage targets and reducing the number of pollution incidents to their lowest ever level.

Our company is not managed by our customers but it is managed for our customers. Decisions are taken by the Directors and Members of the company. It is therefore vitally important that the quality of Members, Directors and managers is of the highest level. We were delighted to appoint Peter Bridgewater as Finance Director in September 2014. Peter has extensive commercial and financial industry experience having held a number of senior roles at several



We continue to deliver a strong performance for the benefit of our customers, the communities we serve, the environment and the wider economy.

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companies. And we were very pleased to attract and appoint 14 new Members who will succeed Members who have now retired after up to nine years service. On behalf of the Board, I wish to thank all of the retired Members for their contributions.

We have lost a very great friend and stalwart of Glas and Dŵr Cymru, John Bryant, who stepped down as Non-Executive Director at the Annual General Meeting in July 2014. John had been a member of the Glas Cymru Board since it was established in 2001, during which time he served variously as chairman of the Remuneration Committee, chairman of the Quality and Environment Committee, the

Senior Independent Director and also, temporarily, as Chairman (May - September 2014) when he substituted for me during my wife's illness. We are grateful for the wealth of experience and commitment he brought to the company. His significant contribution played a key part in helping us demonstrate that the Glas ownership model - where all financial gains go to customers, not shareholders - can work well to deliver the most essential of public services to our customers.

We end the year in a strong position, and whilst we are pleased with this progress, we have set targets that demand even higher standards. We know that there are significant strategic and operational challenges

ahead that require an extensive programme of organisational change so that we are best placed to deliver the ambitious targets set for 2015 to 2020.

We intend to build on our success and become an industry-leader in our field and to push at the boundaries of what it means to be a truly customer-led water and sewerage company. This Annual Report demonstrates why we can look to the future with confidence.

Credit for the success of the past year is due to the contributions of all the employees, Members, managers and my colleagues on the Board of Dŵr Cymru, to all of whom I am immensely grateful.



We can
look to the
future with
confidence.

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Strategic review

This section is structured to provide an overview of our strategy and business model; analysis of our performance against key indicators; and a summary of the principal risks and uncertainties that we manage.

We are committed to ensuring that our corporate reporting provides a balanced and comprehensive review of our performance between 1 April 2014 and 31 March 2015.

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Chief Executive's review

Our vision is to earn the trust of our customers every day by delivering a safe, reliable and high quality supply of drinking water at an affordable price, whilst also safeguarding our environment. Against this demanding backdrop, the past year has been an important and successful year for Welsh Water as we have overcome some tough challenges. Overall, our services to customers have improved further although there remain aspects where we are determined to do better in the future.

We need to balance the priorities of our day-to-day operations whilst also

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preparing to meet additional strategic challenges in the long term. As a company owned on behalf of its customers, they have remained at the heart of everything we do. In shaping our Business Plan for 2015 to 2020 (as the water industry operates on a regulatory five year cycle), we have listened to the views of representatives of the three million people we serve across our supply area - most of Wales, Herefordshire and parts of Deeside - through an unprecedented programme of customer engagement, with a 94% acceptability level of our plans.

Performance

Teams across the company have worked very hard to improve on last year's record performance. As shown in our Operational Performance Scorecard for 2014-15 (page 12), we can report another year of solid progress as we delivered our best ever performance in some areas, but we remain committed to achieving even higher standards of customer service in the future whilst safeguarding the environment.

We know that providing high quality drinking water is our most important responsibility and our customers have continued to receive a high quality overall service in 2014. We are pleased that we did not record any regulatory bacteriological sample failures at our water treatment

works throughout last year and we connected several new water treatment works across Wales to our network as part of a £120 million investment in this area. Alongside water efficiency, managing leakage remains important in terms of maintaining supplies and I am pleased that we have managed to reduce leakage beyond the target this year. Our priorities now are to address aspects of relatively poor performance in our water network, for example interruptions to water supply and the aesthetic quality of drinking water in some of the areas that we serve.

Sustaining and enhancing the environment are crucial to the long-term sustainability of our services, and our wastewater performance improved further in 2014 with our best ever environmental performance. We recorded our lowest ever number of pollution incidents and our wastewater treatment works continued to perform well, reflecting increased investment in recent years.

The area that we serve is home to some of the most beautiful coastal regions of the UK and so tourism is important to the local economy. We have seen a 26% increase in the number of designated bathing waters in Wales since 2010 and, in 2014, our environmental performance helped ensure that all our beaches passed the minimum standard required by the European Bathing Water Directives; with nearly 90% of the beaches passing the higher guideline (Blue Flag) standard, including Llyn Padarn, Wales' first designated freshwater bathing lake.

Our plans recognise that alone we cannot deliver the scale of required environmental improvement at an acceptable level of cost. This is why we welcome the Welsh Government's Water Strategy for Wales that supports our increased focus on catchment activity so that we can improve water quality before it arrives at our treatment works. These plans include initiatives such as innovative catchment monitoring work which seeks to address pesticides in river water at source (see page 31 for further details).

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Sustainability

As one of the largest energy users in Wales, we have continued to develop several key renewable energy projects over the past 12 months to help us power our sites more sustainably and to reduce bills for our customers. This includes launching a £24 million Energy Park project at our largest wastewater treatment works in North Wales (Five Fords near Wrexham) which will lead to multiple renewable energy technologies located at this one site. We have also invested £20 million to purchase a number of hydro-electric generation schemes on some of our largest reservoirs. This has enabled us to double our renewable energy generation to over 20% of the energy we use and will play a key part in helping us deliver our long-term aspirations.

With more extreme weather forecast due to climate change, plus the growing pressures from urbanisation and development, we need a long-term strategy to manage the problem of overloaded sewers, in a more sustainable way. Between 2013 and 2015, we invested £15 million in the Llanelli and Gowerton areas on a ground-breaking programme of sustainable drainage projects. Such 'RoinScope' projects are designed to manage the flow of surface water entering our sewer network. These schemes are helping to protect communities from sewer flooding and they also protect environmental water quality. We are making excellent progress in reducing the volume of surface water flows in our network. We now plan to invest £60 million in these techniques across our area between 2015 and 2020 so that we can deal with the escalating problem of flooding, resulting from climate change, in a truly sustainable way.

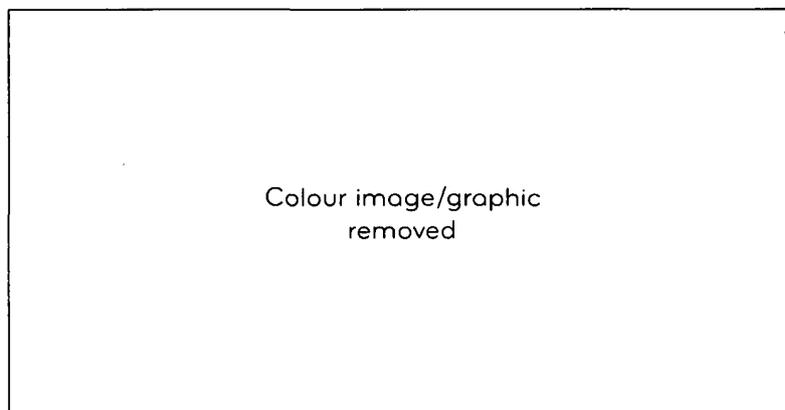
Customer service

In line with our vision to earn the trust of our customers every day, our unwavering focus is to continually improve the services we provide to our customers. We are amongst the industry leaders in terms of customer service and we continue to implement a wide range of initiatives to improve how we can serve and inform our customers; for instance, we launched a new billing system in February 2015 which will enable a wider range of customer service options in the future. We welcomed the Consumer Council for Water's (CCWater) latest annual findings that we had the second lowest volume of customer complaints for 2013-14 amongst the 10 water and sewerage companies. Its annual tracker research in 2014 confirmed that we scored a record 96% customer satisfaction rate with our water services and 91% with our wastewater services. This was amongst the highest in the industry. Our regular research shows around a 90% satisfaction rate amongst our business customers.

Affordable bills

Our operating area has one of the highest proportions of disadvantaged households in England and Wales. This is why reducing customer bills in real terms whilst also maintaining and improving our services continues to be a key priority for us. Our water and wastewater services currently cost households around £1.20 a day on average. We believe this represents value for money but we plan to do more by delivering a decade of below inflation price increases by 2020. In response to real problems of affordability for our more disadvantaged customers, we will be offering a new social tariff (HelpU) from April 2015 that will aim by 2020 to help more than 100,000 customers who struggle to pay their water and sewerage bills. Our industry-leading approach to social tariffs has been enabled by our non-shareholder owned model. This goes well beyond the support offered by any other water company and was supported by 75% of our customers in independent research.

Average household bills (in 2014-15 prices)



Innovation and efficiency

Looking to the future, we need to be more innovative in the way we approach business challenges, adopting more dynamic solutions where we can. This is why we have developed a 25 year Innovation Strategy that sets out how we will drive innovation across the company. This will build on the success of current activity such as our approach to catchment management, which is working to the long-term benefit of our customers and the environment.

We continue to benchmark ourselves internationally and develop partnerships with other leading international water companies such as Oasen Drinkwater in Holland. We encourage employee exchanges between our two companies so that we can learn from each other and implement best practices. We also arranged our first ever Innovation conference in October where existing business partners, academia and other companies put forward innovative ideas that will help us provide a better, more sustainable service to our customers in the years to come. Being open to new ideas and thinking has also enabled us to create our new Capital Delivery Alliance, which brings Welsh Water colleagues and our new capital partners into one team at a single location as described on page 51. This new Alliance creates a collaborative working environment to help foster innovation and drive value in the design and delivery processes, so that we can improve our services and reduce overall costs.

Financial performance

In 2014-15, our financial performance was good. Total revenue increased by 2.2% to £753 million. The consolidated income statement on page 102 shows a loss before taxation of £100 million (2014: profit of £145 million) which has principally been caused by non-cash movements in the market value of derivative financial instruments. Our underlying Group profit before tax increased to £77 million (2014: £50 million). Our bad debt charge for the year of £29 million (2014: £28 million) represents 3.9% of annual turnover. Our customer reserves now stand at nearly £2 billion, having grown more than ten-fold since Glas Cymru acquired Welsh Water in 2001. Our financial gearing ratio (net borrowings expressed as a percentage of our regulated capital value) is now down to 60% - from 93% in 2001 - and we have the best credit ratings in the utilities sector.

Shaping the future

Our customer-led Business Plan, with its ambitious pricing limits and record levels of investment, presents us with a major challenge for the next five years. Reducing our costs and also achieving stretching performance targets necessitates the reshaping of our core business into three business units (Water, Wastewater and Retail) which will need to work ever more closely to deliver the best joined-up customer service. With the continued commitment of my colleagues, I am confident that we will rise to the challenge of delivering industry-leading levels of financial and operational performance to ensure that we realise our vision of earning the trust of our customers every day.

Our people

We are all committed to delivering the highest levels of service to our customers, with colleagues turning out in all weather conditions to help maintain services to our customers and to protect the environment. The health and safety of our staff is therefore paramount and I am glad that we had the lowest level of reportable accidents in 2014-15. With our internal employee engagement survey this year showing that our employee engagement index remains high at 74% - which is above the private sector average and also achieved during a period of major organisational change for the business. I want to thank everyone for their dedication and continued hard work during the year.



Chris Jones
Chief Executive
5 June 2015

Performance scorecard: 2014-2015

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 Glas Cymru Board to set targets independently 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. In 2014-15, we achieved or beat the targets set by the Board for 12 of the 18 measures on our Performance Scorecard. For more detail on our performance, see page 26.

Over the past 12 months, we have reduced our operating costs by £1 million

See page 56 for more detail.

Safe drinking water

Bacteriological compliance at Water treatment works*	99.99%	
	100%	E

Reservoir integrity index*	99.95%	
	99.98%	E

Iron compliance (at top)*	99.54%	
	99.41%	F

Mean zonal compliance*	99.97%	
	99.94%	F

Process control index*	99.99%	
	99.92%	F

Disinfection index*	99.99%	
	100%	E

Customer contacts (per 1,000 pop.)*	3.36	
	3.53	F

Safe sanitation

Sewer flooding**	192	
	151	E

Internal sewer flooding incidents**	82	
	43	E

Protecting our environment

Leakage (MI/d)**	183.75	
	179.52	E

Number of serious pollution incidents*	2	
	4	M

Total number of pollution incidents*	124	
	112	E

Wastewater sites compliant with permits*	99.96%	
	99.90%	E

No. of wastewater sites failing numeric consent*	12	
	5	E

Customer service

Interruption - minutes lost**	51	
	23	E

Number of written complaints**	4,079	
	3,314	E

Number of unwanted calls**	131,346	
	128,120	F

Customer satisfaction**	4.62	
	4.40	F

* Measured on calendar year
 ** Measured on financial year
 □ 2014
 □ 2015
 E Exceeding target for 2014-15
 M Met target for 2014-15
 F Failed target for 2014-15



3.2

MILLION PEOPLE



800

MILLION LITRES OF DRINKING WATER PER DAY



27,000

KM OF DRINKING WATER PIPES



92

RESERVOIRS



600,000

TESTS A YEAR



4

VISITOR CENTRES

Who we are

Welsh Water is the sixth largest of the ten regulated water and wastewater companies in England and Wales.

Our primary responsibility is to deliver safe and reliable drinking water and sanitation to the 3.2 million people we serve across most of Wales, Herefordshire and parts of Deeside.

We provide an essential public service and, as custodians of the water industry in our area, we are responsible for protecting the environment and delivering a high quality and reliable service to our customers.

Much of what we do from day to day involves operating and maintaining an enormous network of assets that would cost some £26 billion to rebuild – the equivalent of £20,000 per household.

We provide our services by:

- Managing 92 reservoirs and supplying over 800 million litres of safe, clean drinking water each day through more than 27,000km of pipes. We deal with more than 3,000 bursts on our network every year – preventing any impact on our customers in the majority of cases. We also carry out almost 600,000 tests a year on samples from our drinking water sources and our network at our state-of-the-art laboratories in Newport, South Wales and Bretton, North Wales
- Collecting wastewater (including surface water) through more than 30,000km of sewers. We deal with over 2,000 blockages a month and manage to prevent flooding or pollution in 99% of cases, helping to protect public health and the environment
- Dealing with over 1.1 million telephone calls every year from households and business customers
- Managing 40,000 hectares of land. This includes four visitor centres that between them attract around 1 million visitors each year
- Directly employing over 3,000 colleagues and supporting a further 3,500 jobs to help ensure that we provide a first class essential service.

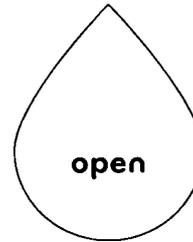


Our vision

Customers must be able to trust that the essential services we deliver are safe and of the highest standard.

We know that we are relied upon to do the right thing on their behalf. This is why we put customers first. They are at the heart of everything we do.

We will earn the trust of our customers every day by delivering high quality, essential services that protect our customers' health, our communities and the environment around us.



Our values

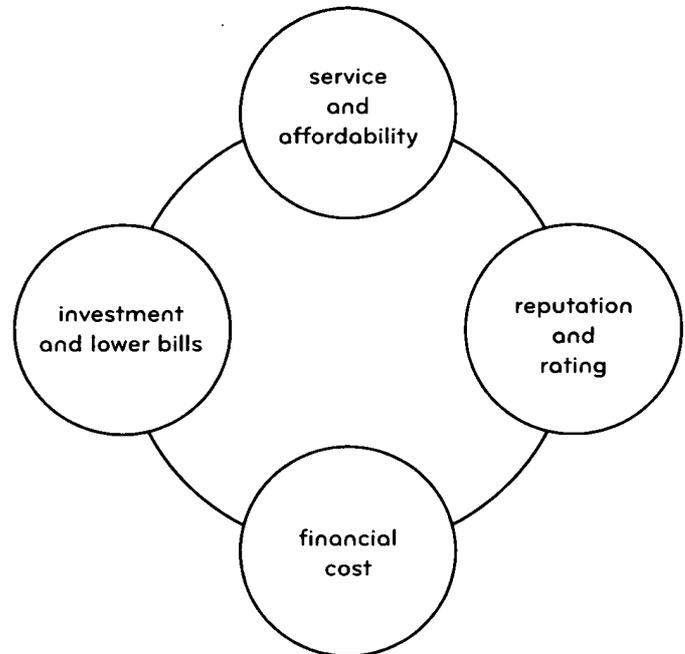
We're proud to put our customers first. We strive for excellence in all that we do. We're always open to new ideas and challenge ourselves to discover better ways of working. We are safe in everything that we do and never cut corners. Being honest, even when things are difficult, means our colleagues and customers can always trust us to do the right thing. By living by these values, every day, we will earn the trust of our customers.



Why we're different

Welsh Water is owned by Glas Cymru Cyfyngedig, a single purpose company with no shareholders. Glas Cymru was specifically formed to own, finance and manage Welsh Water.

Our governance structure is underpinned by the Board of Directors and supported by the role played by Glas Members, who have no financial stake in the company but who perform an essential governance function and hold the Board to account for the good governance of the Group. The Group structure is outlined in more detail on page 63.



We have returned £136 million of value to customers between 2010 and 2015.

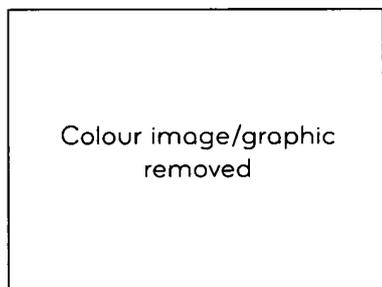
Welsh Water's sole purpose is to deliver high quality water and wastewater services at the least possible cost to its customers now and long into the future. We do not pay any dividends to shareholders, and our unique structure enables the company to share all its gains with customers.

Between April 2010 and March 2015, we have returned £136 million to customers by investing:

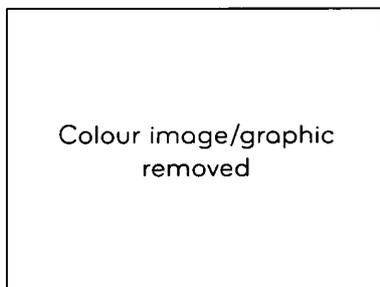
- £87 million to finance accelerated capital projects to improve services to customers and safeguard the environment
- £22 million on supporting customers who struggle to pay their bills
- £27 million on meeting the costs of new legal responsibilities such as the transfer of 17,000 km of private sewers in 2011.



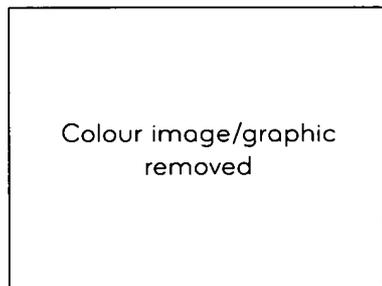
The Glas Cymru Board of Directors



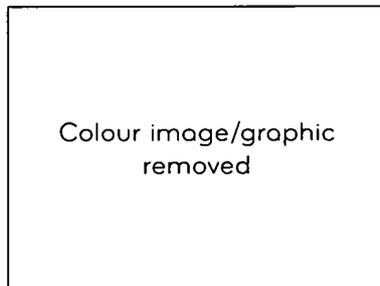
Robert Ayling
Chairman



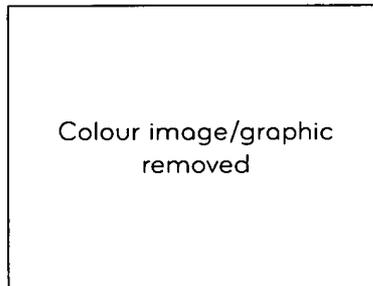
Menna Richards
Senior Independent Director
(appointed Senior Independent Director from July 2014)



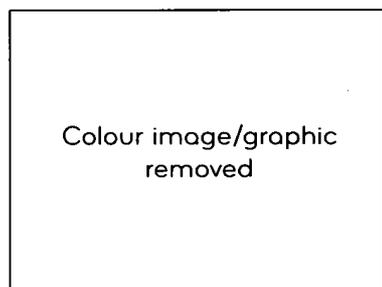
Chris Jones
Chief Executive



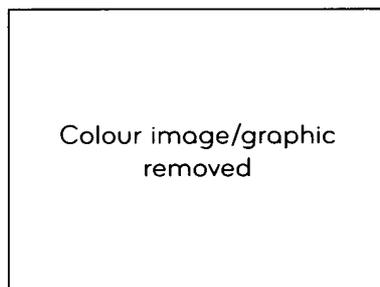
Peter Bridgewater
Finance Director (appointed with effect from September 2014)



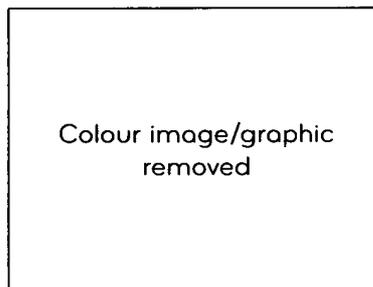
Peter Perry
Chief Operating Officer



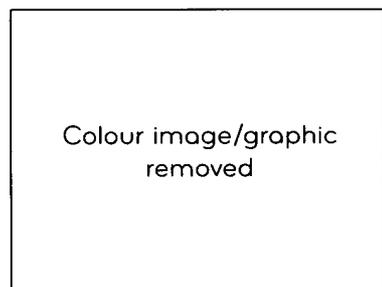
Graham Edwards
Non-Executive Director



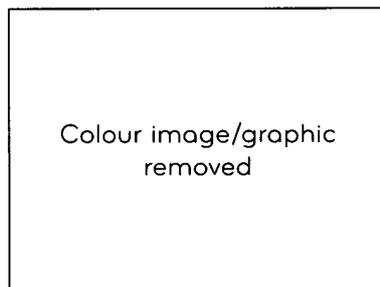
Professor Stephen Palmer
Non-Executive Director



James Strachon
Non-Executive Director



Anna Walker
Non-Executive Director

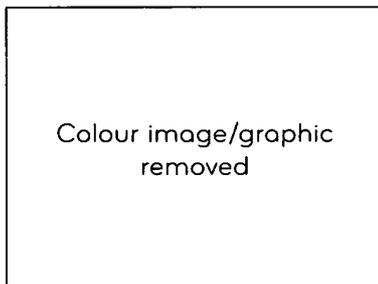


John Warren
Non-Executive Director



The Board of Directors is responsible for the strategic direction of the company and for reviewing operational and financial performance.

The Board of Directors, as at 31 March 2015, comprises 3 Executive Directors and 7 Non-Executive Directors (including the Chairman of the Board).



John Bryant
Senior Independent Director
(stepped down from the Board in July 2014)



Our industry and regulators

Welsh Water is one of ten water and wastewater companies in England and Wales and there are also nine other regional companies which supply water only services in certain areas.

Our regulators include:

- **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** is an independent body established to represent the interests of customers. It investigates complaints, champions customer concerns and audits our performance on customer service, as well as influencing public 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**
- 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** and the **Environment Agency**. They oversee our management of designated sites for nature conservation and how we meet our obligations to conserve and improve biodiversity and our natural resources
- The **Health and Safety Executive** is the national independent regulator for work-related health, safety and illness
- The principal aim of the **Welsh Language Commissioner** is to promote and facilitate the use of the Welsh language. We submit an annual compliance report to the Commissioner's office detailing how we have complied with the provisions of our statutory Welsh Language Scheme which outlines how we provide bilingual services to our customers.



Look back: 2010–2015

Between 2010 and 2015, we invested around £1.5 billion in our services which provided an estimated £5 billion boost to the Welsh economy, supporting over 6,000 jobs, and securing a legacy for the future.



Big achievements

Between 2010 and 2015, we have succeeded in:

- strengthening the resilience of the supply of drinking water to nearly 400,000 customers by investing £120 million in rebuilding, refurbishing or upgrading 12 water treatment works
- improving how we treat wastewater and protecting the environment by investing £29 million on replacing or upgrading 40 wastewater treatment works
- reducing the risk of local sewer flooding which could adversely impact our customers and the environment through our £15 million "RainScope" investment in Llanelli and Gowerton which is aimed at removing surface water from our sewer network
- encouraging more people to enjoy the beautiful reservoir at Llandegfedd Reservoir near Pontypool by building a brand new £2.5 million water sports and visitor centre
- protecting the high quality of the drinking water we supply, including investing £11 million on a state of the art laboratory in Glaslyn, Newport and Bretton, North Wales
- helping more customers than ever before – around 50,000 – who struggle to pay their bills
- ensuring our customers' satisfaction has consistently been amongst the best companies in the sector.



Big challenges

To help us reach the level of service our customers expect and deserve, we also know that we need to improve in some key areas of performance. These include:

- reducing the number of customers who contact us about discolouration, appearance, taste and odour problems in relation to their drinking water
- maintaining a more reliable supply of water to some of our customers by focusing on water supplies that are most at risk of interruptions
- replacing unlined iron water mains which can corrode and cause rusty, brown discoloured water to flow through customers' taps
- developing easier ways for customers to pay their bill, such as "My Bill" online bill payment
- encouraging all our customers to pay their water bills by improving our processes and adapting our collection methods to suit customer needs.

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Benjamin Richards
Looking after our water network, Ebbw Vale



Look forward: 2015–2020

In the water industry, many of the decisions we take today will have a major impact on our customers, the environment and the economy for years to come. We recognise how important it is to be clear about our objectives and how they are to be achieved.

After consulting our customers about their priorities, we have identified eight key goals and 22 targets that we want to achieve by 2020 that will benefit our customers, communities and our environment.

Our Targets

Here we set out the targets we want to achieve between 2015 and 2020 in key service areas compared to current level of performance.

The figures in brackets below relate to the operational performance in the last financial or calendar year. Please see page 12 for further details.

1

High quality drinking water

Our customers will have complete confidence that your drinking water is safe, reliable and tastes good.

By 2020, we will:

- strive to ensure that the drinking water we supply meets 100% of the Drinking Water Inspectorate's quality standards (2014: 99.94%)
- reduce the number of occasions on which customers contact us about the appearance, taste and odour of drinking water by 50% (2014: 3.53 per 1,000 population)
- reduce the average number of minutes that affected customers are without water during the year by at least 66% (2014-15: 23 minutes).

2

Responding to climate change

We will adapt our activities to deal with the potential effects of climate change, whilst reducing our own carbon footprint.

By 2020, we will:

- help prevent flooding by significantly reducing the amount of surface water entering our sewer network (from the current equivalent of 1,000 properties to the run-off from the roofs of 25,000 properties) (2014-15: 12,000m³)
- generate enough energy from renewable sources to power the equivalent of 22,000 homes (2014-15: 9,000 homes).

3

Protecting the environment

We will safeguard a sustainable environment that we are proud to hand on to future generations.

By 2020, we will:

- strive to meet 100% of the requirements set out in the abstraction licences from our regulator, Natural Resources Wales
- strive to meet 100% of the standards set by Natural Resources Wales's permits for the treated sewage we return to the environment (2014: 99.1%)
- reduce the number of times we cause pollution, due to failures at our works or problems with our sewers, by 19% (2014: 118).

4

Excellent customer service

We will continue to provide our customers with excellent customer service.

By 2020, we will:

- remain in the top three of all 10 water and sewerage companies for customer service (2014-15: joint second)
- improve the service received by 50% of our most 'at risk' customers. These are customers who suffer from repeat problems with the services we provide, e.g. interruptions to supply or sewer flooding (2014-15: 850 at risk)
- maintain business customer satisfaction at over 90% (2014-15: 89%)
- reduce sewer flooding incidents by 9% (from 295 to 269 a year) (2014-15: 265)
- increase customer trust to 75% (2014-15: 63%).

5

Affordable bills

Our prices will reflect good value for money for our customers, with an effective range of help for those struggling to pay.

By 2020, we will:

- have kept our annual price increase below the rate of inflation for 10 consecutive years (from 2010 to 2020)
- expand our range of help so that up to 100,000 of our customers who are genuinely struggling to pay their bills benefit through our range of social tariffs (2014-15: around 50,000).

6

Developing our people

We will develop a team of people who will provide a great service to our customers.

By 2020, we will:

- ensure at least 95% of all our colleagues are trained to be fully competent for their role (2014-15: 93%)
- have no more than 10 RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) incidents every year (2014-15: 20).

7

Looking after our assets

We will maintain our assets for future generations, at the most efficient cost.

By 2020, we will:

- improve the resilience score of our most strategic assets to 87% (water assets) and 78% (wastewater assets) (2014-15: water - 84.7%, wastewater - 75.6%)
- further reduce leakage levels by 7% (from 181 million litres a day to 169 million litres a day) (2014-15: 180)
- Maintain our assets as 'stable' against Ofwat's criteria which means they are performing well (2014-15: stable).

8

An efficient business

We will continue to be an efficient business with a strong credit quality.

By 2020, we will:

- maintain our A grade credit rating to ensure that we can continue to access low-cost, long-term finance (2014-15: A grade)
- reduce our controllable operating costs by around 20% (2014-15: operating cost was £295 million).



Our approach to risk management

The long term success of the Group depends on identifying, assessing and managing risks effectively and all colleagues play a part in our approach to risk management.

- Individual teams within the business take responsibility for managing risks within their areas of responsibility.
- Our risk management process is managed by a team from Business Assurance, Compliance and Legal departments.
- Each business unit feeds into a "bottom up" risk management system and risks recorded through that process are discussed during a more "top down" discussion of risk every month at a meeting of the Executive team.
- Updates on strategic risks affecting the business are also reviewed at every Board Meeting and the Board reviews the identified strategic risks twice every year.
- The Audit Committee has accountability for overseeing the risk management processes and procedures, and reports to the Board.

This bottom up and top down approach to risk management provides assurance that risks are being effectively managed by the business, in order to identify those areas where further mitigation steps are needed and to assist the Board in reviewing strategic risks facing the business.

We continue to use the "Three Lines of Defence" model to mitigate the risk of non-compliance with our processes and policies. The structure of our risk management assurance controls is set out below:

Key risks faced by the Group	Potential Impact
<p>1 Health & Safety Major Incident</p>	<p>Some of our activities and assets present a constant and significant Health & Safety threat. A major incident could cause catastrophic injury or death to customers, colleagues or others.</p>
<p>2 Major public health incident</p>	<p>A major public health incident could have serious consequences for our customers.</p>
<p>3 Failure to deliver the outcomes and efficiencies in our Business Plan for 2015-2020</p>	<p>The Business Plan achieved through the price review process presents significant challenges for the business in relation to costs challenges and service improvement</p>
<p>4 Customer debt</p>	<p>During the recession, levels of customer debt have increased and a significant number of our customers face considerable deprivation.</p>
<p>5 Failure to adapt to market reforms</p>	<p>From April 2017, for those companies based wholly or mainly in England, the retail water and sewerage market for business customers will be open to competition. For Welsh Water, only our few larger customers will be subject to competition for the time being. We may lose income if business retail customers are persuaded to switch to a new supplier. There may also be further changes relating to "upstream" market reform in the medium term.</p>

1

Health & Safety Major Incident

Some of our activities and assets present a constant and significant Health & Safety threat. A major incident could cause catastrophic injury or death to customers, colleagues or others.

2

Major public health incident

A major public health incident could have serious consequences for our customers.

3

Failure to deliver the outcomes and efficiencies in our Business Plan for 2015-2020

The Business Plan achieved through the price review process presents significant challenges for the business in relation to costs challenges and service improvement

4

Customer debt

During the recession, levels of customer debt have increased and a significant number of our customers face considerable deprivation.

5

Failure to adapt to market reforms

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Strategic Relevance - Our vision and values	Mitigation	Impact and Activity
Safe at all times Trusted to do the right thing	<p>The Health & Safety of customers (H&S), colleagues and members of the public is the number one priority for the business. H&S issues are the responsibility of every individual team, a personal H&S target is applied to each individual through the Performance Management Review process, and H&S issues are considered at every meeting of the Board and the Quality and Environment Committee.</p> <p>Our teams work to a H&S Strategy and Management Plan with operational procedures accredited to OHSAS 18001 and subject to external independent assessment. In addition, we have rolled out across the business our STEP (Safety Takes Every Person) safety culture improvement plan and training programme which includes leadership safety conversations.</p> <p>We also work with Trade Union H&S Consultative Forums at both Company and operational levels.</p>	<p>Despite an improving record of RIDDORs (reportable accidents) and lost time incidents in the course of this year, our management of Health & Safety risks continues to be a key area for further improvements. We strongly believe that all colleagues should return home safely at the end of the working day and we work to minimise any operational risks to colleagues, customers and the public.</p>
Excellence in everything we do Trusted to do the right thing	<p>The quality of our potable water is monitored by the DWI and we are subject to regular audits. Our investment programme for Water treatment works across the supply area continues to improve our management of the risks in this area. We use science and innovation to reduce the risks of a public health incident. In addition, we have clear processes and procedures for working on both the clean and wastewater sides of the business and the importance of these procedures is regularly the subject of training and team briefs. We have an integrated management system which helps drive continuous operational improvements and is subject to six monthly external assessment by BSI – we maintain external certification against quality and environmental standards.</p>	<p>We review every incident that impacts (or has the capacity to impact) on the safety or wholesomeness of drinking water, to ensure that lessons can be learnt for the site concerned, and where appropriate, across the supply area. We maintain and update Drinking Water Safety Plans. In our assessment, there is no change in the probability of a major public health incident since last year, but clearly this is an area that is centrally important to our core purpose.</p>
Excellence in everything we do Proud to put customers first	<p>There was unprecedented customer engagement in the development of the detailed business plans which are owned by the individual teams within the business who have responsibility for delivering them.</p>	<p>The clear responsibility and ownership of these plans means that the business is well placed to meet the challenges of AMP6, which are key to our financial and operational success. The significant programme of investment planned for the period 2015-2020 will assist in ensuring improvements in asset performance, and the use of LEAN programmes and technology to support SMART networks will also enhance services to customers and help us to meet performance targets. We have finalised a detailed Business Plan for the period 2015-2020 and this will assist the company to manage the risk in this area. Progress against the plan will be monitored by the Board on a regular basis.</p>
Excellence in everything we do Honest with everyone Proud to put customers first	<p>As part of the technology improvements made to our billing systems, we will be better placed to understand our customers' specific circumstances. This will enable us to direct them towards appropriate assistance if they have difficulty paying our bills, which may include our expanded social tariffs scheme.</p> <p>Where customers are able to pay but choose not to do so, we plan to take formal legal action to recover debt at an earlier stage, to reduce the cost of bad debt borne by the generality of customers. Better information about our customers (including details of tenants provided through the Landlord Registration Scheme in Wales and from credit reference agencies) will enable us to make decisions about how best to deal with recovery of debt in each case.</p>	<p>We continue to witness a slowdown in payments from some customers. During the implementation of our new billing system, which became operational at the end of January 2015, there was less litigation as existing systems were cleansed in preparation for the switchover. However, the new technology we have acquired will enable us to use detailed information to manage debt in a more differentiated way for different customers.</p>
Proud to put customers first Open to new ideas	<p>We are committed to ensuring that business customers in Wales are not disadvantaged by the absence of retail competition. Our ambition to earn the trust of our customers every day and to be the best performing water and sewerage company will ensure that we continue to provide the best possible service to customers while balancing cost and keeping bill increases below inflation. This strategy will help us to meet the changing expectations of customers during a period of significant change for the sector. We have also put in place a team to review and consider the operational, strategic and procedural changes we need to make to respond to developments in the sector.</p>	<p>The pace of change in the sector has increased over the last twelve months.</p> <p>We are engaging with Ofwat, Water UK and Market Opening Services Limited (MOSL) on market reform initiatives to ensure that we develop our company to respond to changes in the market. We are a Member of MOSL, the company that is procuring the Market Operating system to enable business customers to switch when the market for non-household customers opens for English companies (and the largest of our non-household customers) in 2017.</p> <p>More generally, we engage with Welsh Government consultations and have followed the progress of the Water Strategy for Wales.</p>

Key risks faced by the Group	Potential Impact	Strategic Relevance - Our vision and values
6 Increased focus on Environmental Regulation	Changed interpretations or enforcement of existing regulations, or new regulatory standards could impose significant costs on us or on the sector as a whole.	Excellent in everything we do Trusted to do the right thing
7 Deterioration in operational performance	Failure to maintain good operational performance could undermine our relationship with customers and could result in financial penalties under the terms of the Final Determination from Ofwat in the price review process; the costs of dealing with operational failures could also jeopardise our ability to meet the efficiencies required under our Business Plan for 2015-2020 (see risk 3 on page 22).	Excellence in everything we do
8 Failure to earn the trust and confidence of our customers	We provide the most essential of services for 3.2m customers every day. Failure to earn the trust and confidence of our customers would undermine our business strategy and our stated vision "to earn the trust of our customers every day."	Trusted to do the right thing Excellence in everything we do
9 Organisational capability, succession and culture change	A lack of engaged or capable managers could result in poor customer service or compliance, whilst perceived cultural weaknesses could contribute to regulatory compliance concerns.	Excellence in everything we do
10 Strategic asset failure and ICT risk	A failure of a strategic asset (such as dams, treatment works and computer systems) could have a catastrophic effect on our customers or members of the public; it could also jeopardise our ability to continue to deliver our services to 3.2 million customers. As a business, we are also dependent on the technology that supports the business (for example telemetry software).	Excellence in everything we do Trusted to do the right thing
11 Relationships with Investors	Strong relationships with our bondholders are key to the Group's ongoing success.	Trusted to do the right thing Honest with everyone
12 Significant disputes with the potential to impact the company	Albion - the company is still in dispute with Albion Water and with United Utilities over the correct approach to pricing supplies of water from the Heronbridge system. Tata Steel - awaiting the outcome of a pricing determination by Ofwat. Infraction proceedings in the Loughor Estuary - in March 2014, the UK Government was informed of an impending infraction case alleging breaches of the Urban Wastewater Treatment Directive in several coastal waters around the UK, including areas of the Loughor Estuary - Gowerton and Llanelli catchments.	

Mitigation	Changes over the period
<p>We continue to work closely with our Independent Environmental Advisory Panel to seek best value for both our customers and the environment and our strategy for Environmental Compliance has been approved by the Board.</p> <p>We sponsor research and other studies to provide evidence to policy makers to support better decision making. We maintain regular structured dialogue with key stakeholders, including direct liaison with Welsh Government, NRW, DEFRA and our trade association, Water UK, to evaluate new or modified regulatory standards.</p>	<p>Increased environmental regulation has necessitated an increased focus on this area by the Board and Executive team in order to avoid an adverse impact on our reputation and the trust and confidence of customers. We have been working with all stakeholders to assist the UK Government's response to the impending infraction case in relation to the Gowerton and Llanelli catchments (see risk 12 below).</p>
<p>We have set stretching internal targets and have detailed strategies in place to manage the risk of a deterioration in performance. The Quality and Environment Committee of the Board challenges us to ensure a full root cause analysis of operational failures is carried out to ensure that the implications of every failure can be properly understood and acted upon. Our remuneration policy and the employee reward element in particular incentivises continuous improvement. We have also carried out a '25 year vision' exercise to identify operational risks and have already implemented relevant mitigation measures to address these risks.</p>	<p>Our operational performance has generally been very good in 2014-15 (see page 12). However, for the next period we need to improve our record for Customer Minutes Lost and in relation to the customer acceptability of drinking water. Strong operational performance is key to building our relationship of trust with our customers.</p>
<p>We are developing a clear customer-focused strategy to form the basis of our relationship with customers for the period 2015-2020. Our new billing system will enable us to collate relevant information and use this to build stronger relationships with our customers. In addition, the Business Account team now have account manager relationships with key business customers.</p>	<p>For the period 2014-15, we come second overall for customer service according to Ofwat's SIM scores measure. Our service has high levels of satisfaction (89%) amongst our business customers, but expectations are rising. Earning the trust of our customers is at the heart of everything we do as a company.</p>
<p>We continue to invest heavily in developing the capability of our people. Focus this year was on delivering Leading Change and Mental Health in the workplace workshops for all people managers, which supplemented our ongoing Leadership Development framework.</p> <p>We continue to benefit from attracting new graduates, apprentices and trainees to the business and have worked to ensure that these are now a more diverse group.</p>	<p>A proud, motivated and appropriately skilled workforce is key to delivering on all of our KPIs. Our 4th annual Employee Engagement Survey was conducted during a period of significant change. 80% of colleagues participated in the survey and our engagement result was above the private sector benchmark at 74%. Female colleagues have enjoyed promoting STEM careers as part of our work with local colleges, schools and universities. 450 colleagues are working towards 1000+ qualifications within our award winning Essential Skills Programme.</p>
<p>Our dam safety team is sector-leading and our Head of Dam Safety is currently Chairperson of the British Dam Safety association; we carry out regular inspections of our major assets, including an Annual Dam Safety Report. We have wider mitigation measures in place such as Total Loss Contingency and Drinking Water Safety Plans for water treatment works and ISO Accredited Operating Procedures for water and wastewater activities.</p> <p>We are continuing to invest in upgrading IT systems, with an emphasis on increased reliability and sustainability.</p>	<p>Reliability of our assets goes to the heart of delivering strong performance safely. We have increased programmes of dam maintenance and we are conscious of the new dams for which we have become responsible following amendments to the Reservoirs Act. We included a specific measure on asset resilience in our 2020 Business Plan. Our new billing system has been successfully implemented and the new IT hardware rolled out across the business has given us a more robust IT architecture as we move into the next AMP period.</p>
<p>Relationships remain good, following the conclusion of the price review process for 2015-2020. With our annual investor meetings and quarterly investor reports, we have maintained strong credit ratings after the last price review, amongst the best in the UK's utility sector.</p>	<p>Strong and stable relationships with our key investors are key to the reputation and financial well-being of the company.</p>
<p>Guidance on bulk supply pricing is expected from Ofwat shortly and this may assist in resolving the disputes with Albion, United Utilities and Tata Steel.</p> <p>As regards to the Lougher Estuary, we are working closely with Welsh Government and Natural Resources Wales, and investing in our ground-breaking sustainable drainage schemes in the affected areas (see page 38).</p>	<p>Avoiding unnecessary disputes allows us to apply resources elsewhere to focus on achieving our strategic aims.</p>

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Measuring our progress: 2014–2015

Our business planning is based on eight key 'outcomes' that have driven performance since the publication of 'Our Sustainable Future' in 2007 and used also in our Business Plan for 2015 to 2020.

1

High quality drinking water
Pg 28

2

Protecting the environment
Pg 32

3

Responding to climate change
Pg 36

4

Excellent customer service
Pg 40

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With challenging but achievable targets set for each, the key outcomes provide a consistent and transparent platform for allowing us to measure our operational, environmental, financial and customer performance in order to determine our progress.



Affordable bills
Pg 44



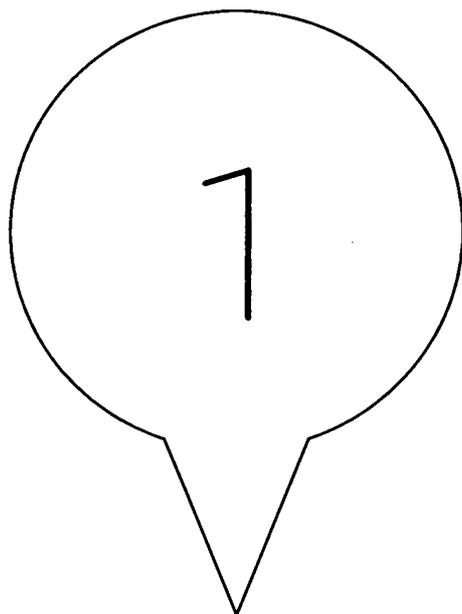
Looking after our assets
Pg 48



Developing our people
Pg 52



An efficient business
Pg 56



Our ambition:

Our customers
will have complete
confidence that
their drinking water
is safe, reliable and
tastes good



High quality drinking water



65

WATER TREATMENT WORKS



800

MILLION LITRES



1.4

MILLION HOUSEHOLDS AND BUSINESSES

Introduction

Delivering an uninterrupted supply of safe, clean, high-quality drinking water is central to what we do. It underpins the public health and economy of the communities we serve and is a fundamental expectation of our customers.

To achieve this, we manage 65 water treatment works supplying over 800 million litres a day to over 1.4 million households and businesses through a network of reservoirs and 27,000 km of water mains – enough to stretch to Australia and back.

Highlights

To help measure the quality of our drinking water, we carry out more than 600,000 tests a year on samples taken from drinking water resources such as rivers, reservoirs and also from the drinking water network including customers' kitchen taps. In 2014, the overall quality of the drinking water we supplied remained at a high level with 99.94% (2013: 99.97%) overall compliance with drinking water quality standards at customers' taps. With no bacteriological failures (2013: 1) at our water treatment works for the first time in several years, we have again met our performance targets on three of the six key measures used by the Drinking Water Inspectorate (DWI) to measure water quality compliance at each point on the water supply system.

We are now completing a £120 million investment programme to upgrade or refurbish 12 water treatment works across the area we serve, giving additional security of supply to nearly 400,000 customers.

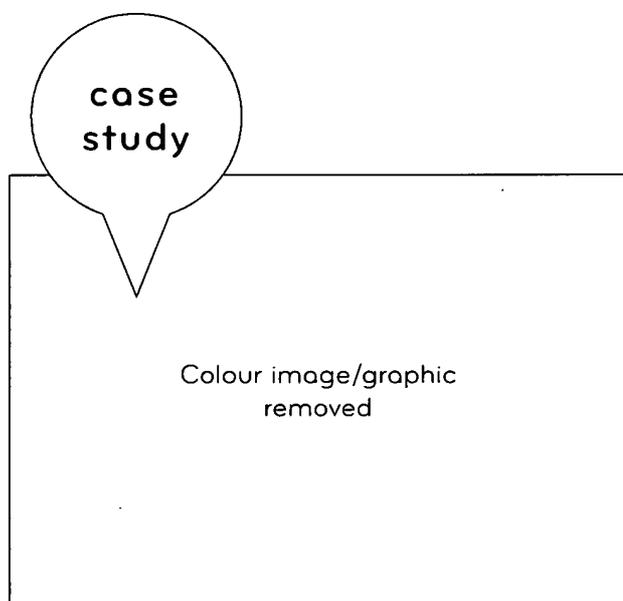
Over the past 12 months, we have beaten our leakage targets with 180 megalitres lost on average per day against our target of 184 megalitres per day. Using advanced diagnostic tools to provide alerts to unusual fluctuations in water usage, we are now responding faster to any leaks. This has been supported in recent years by our work to expand our pressure management capabilities to help reduce the risk of failures on the network.

Weed Wipers Trial

Increased levels of grassland herbicides in the upper River Wye and River Teifi catchment areas in mid and West Wales can often be attributed to run-off from land that has been treated with herbicides to control the spread of weeds. So that we can maintain the high-quality standards of drinking water our customers have come to expect from us, the water we take from these areas requires additional treatment before we can supply it to our customers. These can not only harm wildlife but generate cost for us.

In April 2015, we launched an innovative six month trial with our partners to offer the free use of a 'weed wiper' for farmers and land managers in these areas. The approach is more beneficial than traditional spraying methods as it applies chemicals directly to the targeted weeds. As a result, fewer chemicals need to be applied, which reduces the impact on the local environment. This makes the water easier to treat, helping us to reduce the cost for our customers.

In the first week of the trial, over 100 farmers and landowners registered their interest in using the weed wipers. We will evaluate the effectiveness of the campaign in Autumn 2015.



Farmers Union of Wales President, Mr Emyr Jones, said:

" We support this initiative. Farmers appreciate the importance of responsible grassland herbicide use. The 'weed wiper' provides the opportunity for landowners to try out different rush management methods, improving the availability of grazing for livestock as well as water quality."

Challenges faced

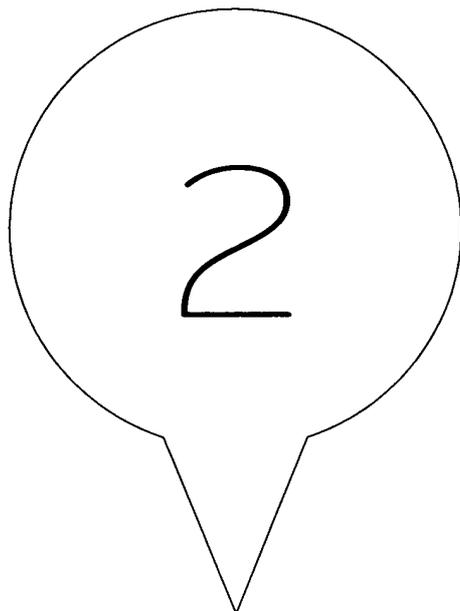
There remain some areas that need further improvement including the need to maintain uninterrupted water supplies to our customers. Such interruptions can be caused by our own maintenance work, the actions of third parties (such as developers), events beyond our control (such as extreme weather) or by planned essential investment work on the network. These schemes or repair works are further complicated in the area we serve as a result of the local topography and the extensive length of our network. We have made significant improvements in this area through improved planning, data analysis and better prediction of potential issues. Consequently, on average, customers suffered 23 minutes of interruptions to supply during 2014 to 2015 - much lower than our performance in the previous year (51 minutes).

Work also continued during the year to improve the taste, colour and odour of our drinking water in some areas as we know that even very safe variations are of concern to our customers. The number of 'customer contacts' we received per 1,000 customers - queries or complaints by phone call, email or letter - is a good measure of customer confidence in their tap water. In 2014, we recorded 3.53 contacts per 1,000 customers (2013: 3.36) against our target of 3.03. Most of these contacts related to discoloured water and we missed this year's target of iron failures at customers' taps with 99.41% against a target of 99.70%. Although we have invested in a major programme of replacing unlined iron mains in recent years, it remains a challenge for the company. Improving this measure is therefore a key part of our investment programme between 2015 and 2020 as we plan to replace nearly 160 km of unlined iron mains around Hereford, Holywell and Mold, Newport, Bridgend and Porthcawl.

Looking ahead

As part of our plans to maintain high quality drinking water, we will increase our catchment management activity, which is the first point of drinking water treatment. Reducing pollution from entering our rivers and aquifers from agricultural and urban drainage will improve biodiversity and reduce the need for costly treatment. This involves targeting areas of moorland and agricultural land in order to improve natural water quality and water storage in these landscapes.

We intend to expand our work with our partners, Natural Resources Wales, Work Cymru, Snowdonia National Park Authority and the National Trust, after receiving £165,000 funding from the Welsh Government's Ecosystems Fund. Working with our partners, we have restored peatland ecosystems on the North Wales Moors, and reduced the levels of colour and dissolved organic carbon in the streams that drain the peatland. This has enhanced the water quality at the nearby Alwen and Llyn Conwy reservoirs in North Wales that serve more than 160,000 customers.



Our ambition:

We will safeguard
a sustainable
environment that
we are proud to
hand on to future
generations



Protecting the environment

Introduction

To help deliver our water and wastewater services effectively, our business depends on the health of the natural ecosystems in which we operate. With a sewer network consisting of some 30,000 km of pipes, over 1,900 sewage pumping stations, around 3,200 combined sewer overflows and nearly 900 wastewater treatment works, we have a duty as environmental stewards to ensure that our activities not only have a minimal impact on the environment but also enhance it wherever possible.

Highlights

In providing our wastewater services, we have built on the solid progress made in 2013-14 by delivering our best ever performance this year. As well as recording the lowest ever number of pollution incidents this year at 112 (2013-14: 124), although five wastewater treatment works failed to fully comply with discharge permits (2013: 12), we ended within our target of 14. Meanwhile, we continue to hold ourselves fully accountable and to the highest standards. This has been evidenced in the past 12 months with the self-reporting of pollution incidents to Natural Resources Wales and the Environment Agency at its highest level ever and ahead of our target (55%) at 60%.

We know the devastating impact that sewer flooding can have on our customers as it is the worst type of service failure. This is why we have continued to invest in measures and activities to minimise the likelihood and effect of such events. Our work has included completing 23 schemes in the past 12 months to reduce the risks of

internal and external sewer flooding to 131 properties. However, despite seeing the number of internal sewer flooding incidents last year fall by nearly 50% to 43 (2013-14: 82), we are aware that a handful of customers have suffered repeat internal flooding and we remain determined to reduce the number of properties at the highest risk of flooding over the next five years.

We recognise the benefits that high quality bathing waters bring to the Welsh economy, both in terms of attracting visitors and enhancing the quality of life for those who live in these communities.

High quality coastal waters also support the marine ecosystems and these are invaluable to industries such as fishing and shellfisheries. We are pleased that our investment in the wastewater network and treatment works is delivering good results as demonstrated by the 34 Blue Flags awarded to bathing waters in Wales in 2014. We will continue to work collaboratively with our partners, such as local authorities

and tourism agencies, to address the variety of factors that can affect water quality and the environment, including agricultural run-off, misconnections and contamination from birds and animals. We are also now issuing live alerts to local stakeholders and interest groups all year round to alert them of any intermittent discharges within 2km of 24 Welsh bathing waters across Pembrokeshire, Swansea, Vale of Glamorgan and Anglesey. We plan to extend this activity to other areas in the near future.

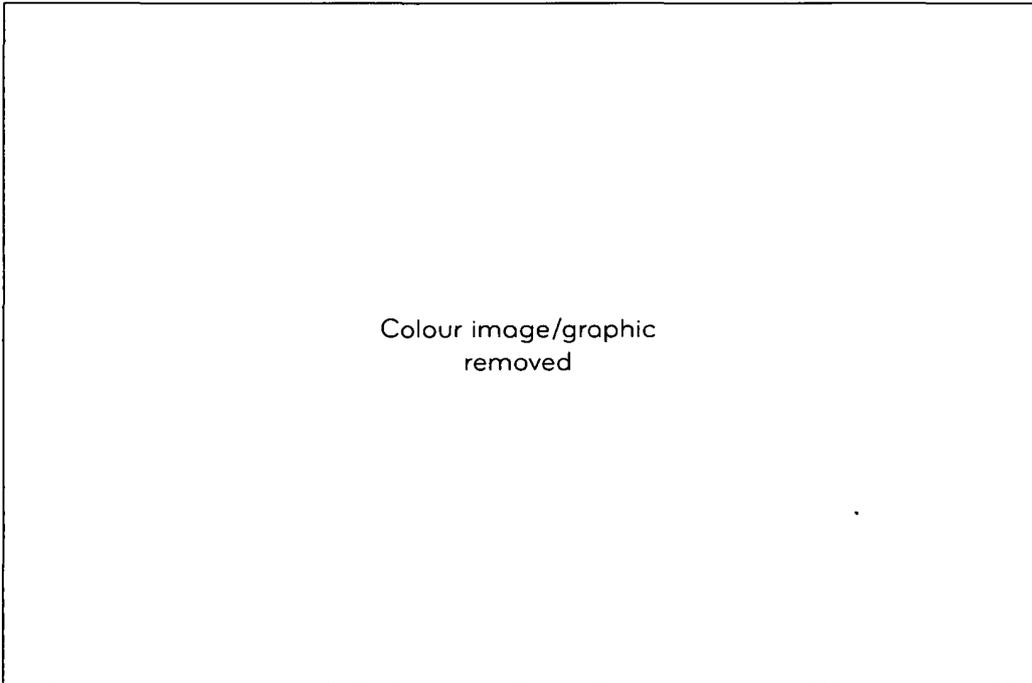
After the successful transfer to us of the private sewer network in 2011, which doubled the size of our sewer network, we are now well underway in managing the adoption of an estimated 800 private pumping stations by 2016. We adopted 115 private sewer pumping stations in 2014, many of which were in a poor state of repair, such as Ponf y Wacco near Holywell which has in the past caused extensive odour issues in the local community. We have invested in this asset to improve its performance.



Let's Stop The Block

Our operational work to protect the environment is being supported by our ongoing pollution awareness campaign. This aims to change the way our customers dispose of fats, oils and grease as well as non-flushable items such as wet wipes and sanitary waste that are often put down toilets, sinks and drains.

This campaign gained significant national media coverage in February and helped raise customer awareness of the issue after we released CCTV footage of some fatty deposits blocking part of our sewers in Cardiff city centre. As we have to deal with 2,000 blockages a month, which costs £7 million a year, we will continue to encourage changes in customers' behaviour so that we can help 'Stop the Block'.

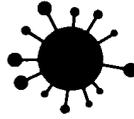


Welsh Water teacher,
Mary Watkins,
launching Let's
Stop the Block at
St Francis Primary
School in Milford
Haven.



£15M

INVESTED IN RAINSCAPE PROGRAMME



£25M

INVESTED IN PHOSPHATE REMOVAL SCHEMES

Challenges faced

We have continued to work closely with the Welsh Government and Natural Resources Wales after the European Commission issued a Reasoned Opinion to the UK Government in July 2014, raising concerns about the frequency of intermittent discharges from our network into the Loughor Estuary and the impact on an area designated as sensitive under the Urban Wastewater Treatment Directive (UWWTD).

Most customers in the area are served by a combined sewer system which drains both foul sewage and rainfall draining off roofs and roads in wet weather. During very wet weather, combined sewer overflows (CSOs) operate to release dilute sewage from the network in order to protect our customers' homes and businesses from sewage flooding. We have invested £15 million in our RainScape programme in Llanelli and Gowerton in 2010 to 2015, which has reduced the average volume discharged from our CSOs by more than 760,000m³ per year. The programme has been further complemented by the £25 million investment over the past 12 months in delivering phosphate removal schemes at Llanelli, Gowerton, Pontyberem and Porc y Splott

Wastewater Treatment Works, which all discharge into estuaries that form part of the Carmarthen Bay special area of conservation. We plan to spend a further £25 million on our RainScape schemes in Llanelli and Gowerton between 2015 to 2020. RainScape is proving more cost effective and sustainable than the equivalent conventional storm water storage solutions which would not work in this area and would have cost around £600 million to deliver.

In December 2014, Natural Resources Wales (NRW) published a report under the Environmental Damage (Prevention and Remediation) Regulations which was concerned with effects on water quality in Llyn Padarn, particularly in respect of phytoplankton growth. Since 2010 we have invested £2.5 million at Llanberis Wastewater Treatment Works and we are continuing to invest in AMP 6. These works enable us to comply with changes in consent conditions, as required by NRW. The tighter limits are intended to improve the ecological status of the lake. The lake has also achieved the water quality standards necessary to be awarded bathing water status by Welsh Government, making it Wales' first designated freshwater bathing lake.

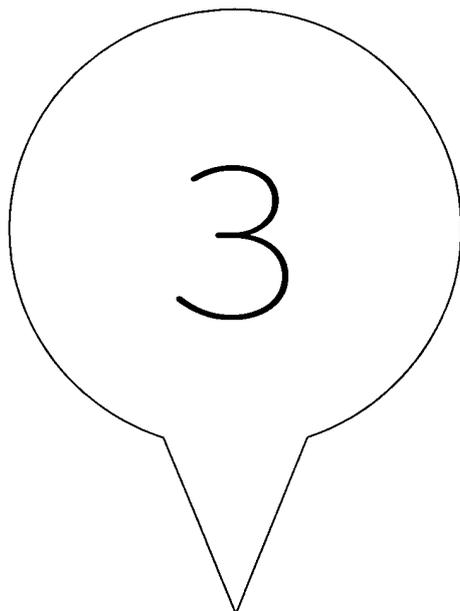
Looking Ahead

With our ageing wastewater network, we know that we need to become even more proactive in identifying pollution risks and vulnerable assets. Having already identified around 800km of high risk sewers which are being surveyed in detail, we are continuing to develop and enhance our predictive capability. The analysis of the data being generated will help improve our understanding of the sewer network's real-time performance and will increase our ability to intervene before a pollution event occurs (e.g. mapping event 'hot-spot' areas, replacing substandard sewer monitors).

To help manage these challenges, investing in education and engaging with the communities we serve is vital. As a result, we continued to host around a million visits to our recreational sites and visitor centres in 2014 whilst also reaching a record 250,000 children as part of our dedicated educational programme. The educational programme helps our future customers understand why we all need to think differently about water and the environment in our care.



We all need to think differently about water and the environment in our care.



Our ambition:

We will adapt our activities to deal with the potential effects of climate change, whilst reducing our own carbon footprint



Responding to climate change

Introduction

We need to ensure our business adapts to maintain vital services in the face of more volatile weather patterns that could lead to declining water resources, poorer water quality and extreme weather conditions including flooding and higher temperatures.

While developing more resilient networks to mitigate the impact of such extreme weather patterns, we are also committed to minimising our contribution to climate change and to reduce our own carbon footprint.

Highlights

Climate change is increasing the intensity of exceptional weather patterns such as storms and floods and we have continued to invest in our RainScope approach to help reduce the volume of rainwater draining into our sewerage system. As a result, this has helped us reduce the impact of our network on local water quality and helped mitigate the risk of urban flooding as highlighted on page 38.

Meanwhile, the biggest single influence we can have in minimising our impact on climate change is to reduce our use of fossil fuels. Supplying customers with safe, clean drinking water and removing and treating wastewater requires a lot of energy.

To reduce our use of fossil fuels and to make us more resilient to external energy market influences,

we have continued to maximise opportunities over the past 12 months to generate renewable energy at our sites. This also reduces our operating costs.

Our latest projects include: developing a hydroelectric scheme on water tanks which feed Bryn Cowlyd Water Treatment Works in Snowdonia National Park; solar panels at Llangefni Wastewater Treatment Works on Anglesey; and the first phase of a solar panel project at Five Fords Wastewater Treatment Works in Wrexham. During the year, we also invested £20 million in buying 14 hydroelectric schemes at nine sites across Wales. This has doubled the amount of renewable energy we generate as these hydroelectric schemes produce 40GWh of energy which is enough to power 9,000 homes.



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RainScope

Work started on the RainScope urban drainage project in Llanelli in summer 2013 when we installed a drainage swale on Queen Mary's Walk. The swale is already outperforming expectations and removing enough surface water to fill over four Olympic sized swimming pools every year.

We then moved to Stebonheath Primary School investing £500,000 in permeable paving and a RainScope Garden which the pupils helped design.

Our RainScope work has also made steady progress through the town's streets where planters, basins and grass channels have been installed to catch and control the flow of surface water.



We will begin the largest science and innovation programme of investment to date which will help us to continue to develop a robust network for the future.

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Challenges faced

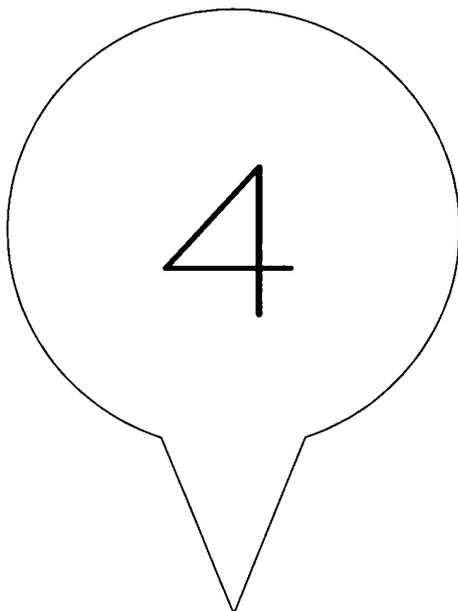
While good progress has been made with our renewable energy projects during the year, factors beyond our control have delayed progress in some places. This has included planning and supplier delays which have delayed the construction of our wind turbines at Swansea and Nosh Wastewater Treatment Works. Periods of prolonged wet weather have also impacted the efficiency and energy output of our advanced anaerobic digestion plants. Despite these factors, we remain optimistic that our aspirational target set in 2007 to cut carbon emissions by 25% will be achieved slightly later than anticipated in 2015.

Remaining alert to the ever changing demands that climate change places on our assets is still a challenge. We have therefore continued to work in partnership with our Independent Environmental Advisory Panel (IEAP) which advises the business on science, research and environmental regulatory matters. The IEAP consists of a number of environmental organisations and helps ensure every pound we invest for the benefit of the environment delivers value for money for customers. We have also continued to fund our Water Framework Directive research programme which directly supports the Welsh Government's 'Living Wales' agenda. This year, we will begin our largest science and innovation investment programme to date which will help us to continue to develop a robust network for the future.

Looking ahead

We will continue to invest in renewable energy and plan to transform Five Fords Wastewater Treatment Works in Wrexham into a ground-breaking energy park incorporating solar, advanced anaerobic digestion, wind and hydro generation schemes at the site. As part of our £24 million investment in this energy park, we will develop a facility to export bio-methane directly into the national gas network - our first bio-gas project. If all elements of the project are granted permission, it is expected that it will save us £4 million a year in energy costs.

Over the coming year, we expect to procure single wind turbines for Swansea and Nosh Wastewater Treatment Works. We will be continuing with the roll out of our innovative RainScope urban drainage solutions in Llanelli to address local flooding issues as well as delivering similar drainage schemes in parts of North Wales.



Our ambition:

We will continue
to provide our
customers
with excellent
customer service



Excellent customer service

Introduction

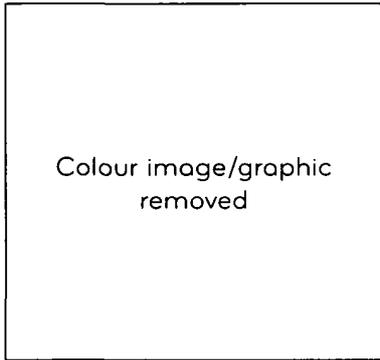
Our customers depend on us to provide water and wastewater services of the highest quality and trust us to always do the 'right thing'. But sometimes, even with the best efforts of our team, things can go wrong, and when they do, we aim to put them right quickly and courteously. As a utility company owned on behalf of our customers, we are unique in placing customers at the centre of decisions we take every single day.

Highlights

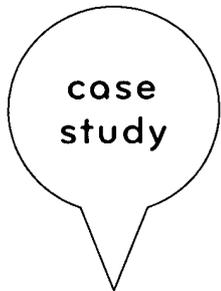
In 2014-15, we were proud that our customer service was ranked joint second amongst all 10 water and sewerage companies with 84% of customers surveyed being satisfied with the service they receive. This year we participated for the first time in a trial which provided customers with an opportunity to rate our service and to say how likely they were to speak highly of our service. With over 20,000 customers participating over a six week period, we were delighted to achieve a net promoter score standard (customer metric used in the utilities sector to measure how many promoters or detractors a company has) of 78.5%. We are also pleased that Phil Atwell, one of our contact centre colleagues, was recognised as Best Agent and Best Agent in Utilities Sector at the Welsh Contact Centre Awards.

Our commitment to getting it right first time for customers is evidenced by a reduction, of 11.5% over the past three years, in like for like unwanted contacts - a measure of instances where the customer has had to contact us regarding a service failure. We have also improved the range and usability of our website to help our customers to get the information they need as conveniently and simply as possible.

We have continued to increase our usage of social media channels this year and customers can now contact us regarding the service they receive via a choice of multi-media and fully bilingual communication platforms. Over the past 12 months more of our customers chose to contact us via the web and social media than through the more traditional route of our call centre, and we expect this trend to continue. We recognise though that not all customers have access to technology and that some prefer to phone us or write to us. We are committed to keeping all of these contact channels available and this year we signed up to the 'Keep Me Posted' campaign which commits us to ensure that customers who want to write to us will be able to continue to do so and will receive as efficient a service as those who contact us via other channels.



Phil Atwell
Billing Contact
Centre Manager



Coed Darcy

A key part of our work involves supporting economic development by meeting the needs of a growing population. This requires us to invest in water mains, sewers and other assets so that we can connect new customers and businesses.

We are currently working with St. Modwen Properties PLC, a UK wide developer specialising in regeneration projects, on a 20 year programme involving a 1,000 acre development site at Coed Darcy, Swansea. St. Modwen's are building 4,000 homes, community facilities, four schools, employment space and open leisure space, all of which need water and wastewater services.

Rupert Joseland, St. Modwen's Regional Director for the South West and Wales, said:

" Welsh Water provided a dedicated Project Manager, a single point of contact who could work closely with external agencies as well as other key departments in Welsh Water, on our behalf, to ensure the project runs smoothly. Having a dedicated member of staff has allowed Welsh Water to gain a better insight into the development and understand our long term plans for all phases, ensuring we deliver at key stages. They were able to work closely with their design team from an early stage which ensured they could provide a flexible approach to costs and programme challenges."

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Challenges faced

Whilst we were delighted that the number of customers who felt the need to complain fell this year, with a reduction of 19% on last year, most of the complaints were still about water meters, paying bills and water quality such as discoloured water. We also received complaints about odour from some of our wastewater treatment works. Residents and businesses near our Treborth Wastewater Treatment Works for example have complained about the impact the odour from the site is having on the local community. We are working with the residents and businesses and are in the process of developing a bespoke investment scheme to address the odour at the works.

Our most significant challenge of the year was the implementation of a new billing system for our 1.4 million households and businesses. The project was the culmination of three years' work to introduce a more efficient system that is capable of billing almost £750 million each year more effectively. The system was successfully introduced with very limited impact on customer service.

Looking ahead

We currently serve more than 100,000 business customers and welcome the results of independent surveys which show that 89% of them are satisfied with the service they receive from us. We recognise that, with the introduction of retail competition for business customers in the water industry in England in 2017, customers expectations are changing. In turn, we are increasing service offerings such as e-billing, leakage detection, sub metering, water efficiency audits whilst also benchmarking ourselves to ensure that we maintain and improve the service that our business customers expect and deserve.

Our customer strategy is also being informed by the development of a new central Smart Hub which will enable us to reduce costs and improve our overall performance by helping to predict and prevent potential issues with our network of assets. We have already implemented the first phase which involves redesigning our existing control room to become a Smart Hub staffed by qualified analysts. This will be followed by a number of pilot projects which are informing the technology we need for the future so that we can continue to maintain and improve our services.



Our ambition:

Our prices will represent
good value for money
for our customers,
with an effective range
of help for those
struggling to pay



Affordable bills

Introduction

As well as being very satisfied with the service they receive from us, we want all our customers to consider that the price they pay for it is fair, affordable and good value for money. We know that we have a responsibility to achieve excellence in everything we do, because our customers depend on us to deliver an essential public service.

Average household incomes in the area served by Welsh Water are currently almost 13% lower than in those supply areas wholly or mainly in England, with some substantive areas being 20% below the average. It is estimated that around 160,000 of our customers struggle to afford their water bill because it exceeds 5% of their household income. Consequently, affordability is, and will continue to be a key challenge for our customers.



AVERAGE HOUSEHOLD BILL

£1.20 PER DAY



REDUCE CONSUMPTION BY

50L PER DAY



HELP CUSTOMERS WHO GENUINELY STRUGGLE TO PAY THEIR BILLS

50,000

Highlights

We have been continuing to reduce costs to keep our bills affordable for everyone. In February, we announced that the average household bill for 2015 would fall by 1%, taking the average household bill for water and sewerage from £440 to £435 - just under £1.20 a day.

This was the sixth consecutive year for us to keep our price increases below the rate of inflation and well within the limits set by Ofwat.

We also offer a comprehensive package of measures to help customers manage their bills, including:

- providing metering and water efficiency advice to over 50,000 household customers since 2010 to help them reduce consumption and so cut their bill, saving households 50 litres a day on average
- helping around 50,000 customers who genuinely struggle to pay their bills by offering a range of customer assistance funds.

Our strong financial position and not-for-shareholder business model has allowed us to do much more for our customers than would otherwise have been possible. This has involved delivering nearly £136 million of additional value to our customers between 2010 and 2015 through accelerated investment, enhanced social tariffs and lower bills.

Challenges

Despite successive below-inflation bill increases, our water and wastewater charges remain around 3% higher than the industry average. Whilst this is largely due to the scale of investment which has been necessary to safeguard our area's sensitive - and economically vital - natural environment, we are addressing this by ensuring that any further average household bill increases will be kept below inflation until 2020.

Like most other water companies, recovering outstanding debt from customers who can afford to but choose not to pay their bills remains a high priority, especially in a difficult economic environment. The methods used to collect customer debt come under intense media and political scrutiny last year and a number of water companies, including ourselves, decided to change our debt collection practices to use more modern practices such as texting to remind customers to pay. The bad debt charge for 2015 - which is the amount owed by customers who are unable, or who choose not to pay their bills - was £29 million (2014: £28 million). This is a significant challenge and, at around 4% of annual turnover, is larger than for most water companies.

Water customers in Wales are paying around £20 extra on annual bills to cover the costs of those who do not pay their water bill. Non-payment of bills is particularly acute in the case of tenanted properties. Since 1 January 2015, private landlords, letting agents and Local Authorities in Wales and England whose rental properties receive their water and sewage services from Welsh Water need to provide information about their tenants to us under new regulations introduced by the Welsh Government. If this is not complied with, the landlord can become jointly and severally liable with the tenant for any outstanding water and sewerage charges.

Looking ahead

As part of our Business Plan to 2020, we intend to develop an innovative and sustainable package which balances affordability and service - both for today's customers and for future generations. As a result, we plan to help even more customers to pay their water bills. We will achieve this by means of our new social tariff, called 'HelpU'. This will help the company's most disadvantaged customers - offering annual savings of up to £250, or 55% on the average household bill.

"This tariff is an important step in ensuring affordable water services for all customers, being the first tariff that caps bills for everyone on the lowest incomes."

Carl Sargeant AM
Minister for Natural Resources,
Welsh Government

Our new 'HelpU' tariff has been developed with support from the independent consumer watchdog CCWater, the Welsh Government and Community Housing Cymru. Independent research shows that over 75% of the company's customers - higher than the industry average - support the new tariff which will help a record number of our customers who genuinely struggle to pay their water bills.

The cost of water bills is a key concern for many of our customers and our household water bills will reduce by a £24 on average, before inflation, by 2020. Over this period we will maintain our investment programme, totalling around £1.7 billion, to improve services and safeguard the environment.

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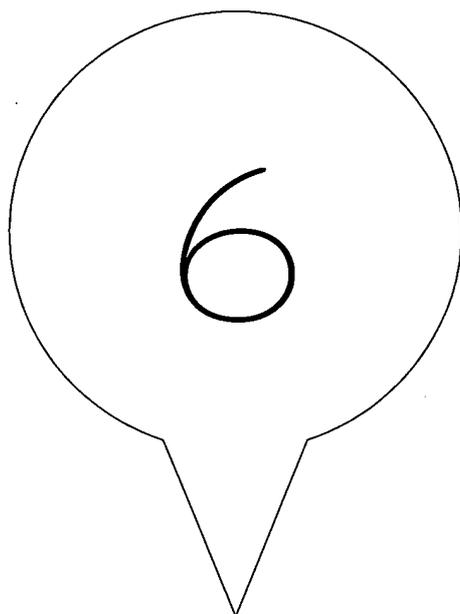


Ian Simpson, Bron Afon's Director of Community Housing and Support, whose tenants will benefit from HelpU, said:

"We do everything we can to make sure our tenants stretch the limited money in their pockets as far as possible. As soon as we heard that Dŵr Cymru Welsh Water were developing a new tariff for people on low incomes, we wanted to be involved. HelpU is going to make a big difference to the lives of the poorest people in Torfaen and so it was important to pass on our local experiences to help Dŵr Cymru Welsh Water make it easy to understand and to access. The tariff will be one of the first money saving tips that our staff will be sharing with tenants to help them manage their money and live more comfortably."



The Roberts family, Nelson



Our ambition:

We will maintain
our assets for future
generations, at the
most efficient cost



Looking after our assets

Introduction

The services we provide are essential for the health and wellbeing of millions of people and essential to our economy. Consequently, our pipes, pumps, buildings and equipment have vital jobs to do. Tens of thousands of kilometres of pipes as well as hundreds of our assets need to be managed efficiently and maintained effectively so that we can continue to provide high quality water and sewerage services now and into the future.

As we serve a large number of small communities, many of which are based in coastal, rural or remote locations, this challenge is made even more difficult; we have amongst the highest number of assets per customer of all the other water and sewerage companies.

We must not only ensure that our assets are robust and resilient, but we must do this whilst looking for new ways to

do things, improve efficiency and reduce the costs and risks of running the business.

Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in assets to keep their service at an acceptable, 'stable' level. With 20 serviceability measures, the performance of each asset group is measured by comparing medium-term serviceability over recent years to long-term performance.



We must try to innovate, improve efficiency and reduce the costs and risks of running the business.

Dolbenmaen

Our work takes us to communities across most of Wales, Herefordshire and parts of Deeside. We know that it's important that we do our very best to maintain and improve services to our customers:

Our single biggest investment between 2010 and 2015 involved building a new £28 million water treatment works at Dolbenmaen, North Wales. This treatment works, which will become operational in summer 2015, will help provide high quality drinking water to 20,000 customers in the surrounding area.



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Highlights

In the final year of the last regulatory investment period, the performance of our assets has remained stable. Performance has improved in several critical areas such as environmental pollution, water treatment works compliance and internal flooding of customers' properties. We have achieved 'stable serviceability' for each of the 20 measures which demonstrates that we continue to deliver high levels of performance which benefit customers and protect the environment.

Our resilience in terms of providing safe, clean drinking water to customers was strengthened in 2014-15 after we brought four new or refurbished water treatment works online - part of a wider investment of £120 million in 12 water treatment works across the area we serve. This has been achieved at a time when we successfully managed the impact of some exceptional weather and the high profile NATO Summit that was held at the Celtic Manor Resort, Newport, in September 2014. We proactively implemented some detailed planning measures and we worked closely with emergency agencies and our regulators to ensure that one of the largest security operations ever undertaken in the UK did not impact adversely on our operations and services.

Over the past 12 months we continued to focus on low carbon, low whole life cost and on time delivery of schemes while ensuring we met quality standards. We managed this in collaboration with our capital delivery partners and supply chain. We undertook extensive investment schemes such as water mains renewals in Builth Wells (£500,000) in Mid Wales, Mountain Ash (£375,000), Ystradgynlais (£1 million) and Osbaston (£500,000) in South Wales. We know that our work, whilst essential, can often cause disruption and inconvenience customers and the wider public and we will always work with local communities and stakeholders to minimise any impact.

We have continued to roll out our ambitious business change programme to implement LEAN working practices across 29 sites in Operations in 2014-15, reducing planned maintenance workloads by 50%. We will roll this out to more than 100 sites over the next few years.

Challenges faced

Where problems have arisen we have been quick to investigate and fix them, working hard to understand and solve any underlying issues. We continue to work closely with Natural Resources Wales having been prosecuted in North Wales and fined £35,000 after a rising sewer main at Kinmel Bay, North Wales caused pollution after bursting in February and July 2013. Work to renew this sewer main was completed in early 2015. We will continue to work with our regulator to ensure that we minimise our impact on the environment.

In order to play our part in safeguarding public health and protecting the environment, we will not allow anything to compromise the safety of the services we provide, including taking action where there are illegal connections which may compromise the public sewerage network or cause pollution incidents or impact adversely on the operation of our wastewater treatment works. We took formal legal action in 14 cases in 2014-15.



£120M

INVESTMENT IN 12 WATER TREATMENT WORKS

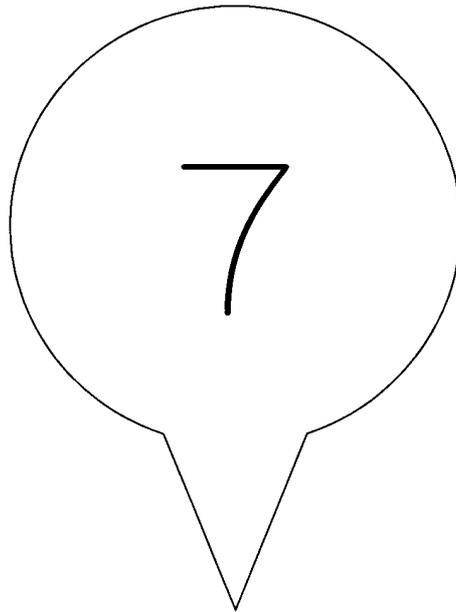


£1.5B

INVESTMENT IN ASSETS ACROSS THE AREA WE SERVE

Looking ahead

In the five years to March 2015, we invested £1.5 billion in assets across the area we serve. We plan to invest £1.7 billion over the next five years and have appointed new capital partners to help us deliver our investment programme by working collaboratively in a new Capital Delivery Alliance that will be based at a single location. This includes Skanska Construction UK Limited (working with Hyder Consulting (UK) Limited), Mott MacDonald Bentley Limited and Morgan Sindall (working with Arup). The Alliance represents a new way of working for Welsh Water and will drive value in the planning and pre-construction phase of projects; identifying efficiencies; promoting innovation; and delivering low carbon, resource efficient solutions.



Our ambition:

We will develop
a team of people
who will provide
a great service to
our customers



Developing our people

Introduction

With around 3,000 colleagues and a further 3,500 roles supported through our contractors, we aim to recruit and retain the best people, supporting them in their work and helping them make the most of their abilities.

Our colleagues are required to work in all weather conditions, within confined spaces and also with hazardous materials. Everyone has the right to expect to go home safely at the end of each working day and, for that reason, health and safety is a top priority for us.

Highlights

It is vital that our colleagues work in a safe environment and their health and safety is a key part of our strategy of developing our people so that they can provide a great service to our customers. To this end, we have in place the relevant policies and procedures to ensure that our colleagues are properly trained and have the proper tools and equipment to do their job.

In parallel to rolling out our Safety Takes Every Person (STEP) campaign to nearly 1,500 frontline colleagues this year, we undertook other initiatives such as 'executive incident reviews' of particular schemes and health and safety stand down days (in which people take time away from their work to specifically focus on health and safety). The training and other initiatives has resulted in an increase in the number of 'Positive Interventions' reported to nearly 17,500 over the last 12 months (2014: 16,000). In addition, in 2015, 20 injuries were reported to the Health and Safety Executive, under the Reporting of Injuries, Diseases and Dangerous Occurrences

Regulations 2013 (RIDDOR), compared to an average of 25 incidents over the past three years. This is the lowest ever level of reportable accidents we have ever achieved.

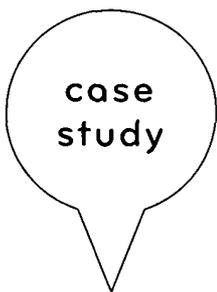
For our business to flourish, it is important that we look after the wider welfare of our colleagues, and over the past 12 months, we not only secured the Welsh Government's Bronze award for the Corporate Health Standard (which is a quality mark for promoting health in the workplace) but we had the lowest level of days lost due to sickness absence for 9 years.

We also continued to ensure a steady supply of talented people joined the company so that they can learn from experienced colleagues. We recruited 4 trainees and 6 apprentices in 2014-15 which brings the total number of trainees, apprentices and graduates appointed since 2010 to 126. This success builds on the Welsh Government-backed 'Essential Skills in the Workplace' programme which helps to enhance the knowledge and skills of colleagues. By the end of March 2015, over

440 colleagues have achieved more than 1,000 qualifications between them.

We also know that celebrating colleague achievement and contribution is key to the company's performance and continuous improvement. Since launching our new 'diolch' awards in January 2013, over 700 teams and individuals from across the company - including strategic partners and contractors - have been recognised for clearly demonstrating our vision whilst placing our core values at the heart of everything they do.

Meanwhile, listening to our colleagues can also help us improve our performance. This is why we conduct an annual Employee Engagement Survey and we welcomed the fact that 80% of our colleagues took part in the exercise this year - 20% more than in 2011 when we first did this exercise. We achieved a 74% engagement score, (which is above the average score for the private sector), with 84% of colleagues believing that Dŵr Cymru puts its customers first.



case study

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Tristram Evans is a Mechanical Apprentice at Eign Wastewater Treatment Works in Hereford and joined Welsh Water in 2012:

"What attracted me to Welsh Water was the chance to challenge myself in a role that revolves around problem solving. The apprenticeship scheme offers academic training alongside the practical hands-on experience that the role demands. My two and a half years currently spent with the company have been eye-opening, varied and exciting.

Challenges are daily and aplenty; we always look to maintain plant performance while incurring as little cost as possible to the customer. Being an apprentice at Welsh Water has given me a new lease of life, it's given me a chance to demonstrate my initiative and commitment to an employer who invests in training and recognises achievement."



Tristram Evans,
Apprentice, Hereford

Challenges faced

We believe that a diverse and inclusive culture is a key factor in being a successful business. A breakdown by gender of our Board, Executive Team and Leadership Team can be found on page 65. As of 31 March 2015, 28% of our total workforce were women.

It is crucial that we keep colleagues informed of changes in the business as well as external factors influencing the company. This is achieved through a systematic approach to colleague communication which includes weekly e-bulletins, a six-weekly employee newspaper (Dwr) in addition to monthly management conference calls and six monthly roadshows which are led by Executive Directors.

We value the views of colleagues and consult with them and their representatives on a regular basis about matters that may affect them. In 2014-15, we worked closely with our recognised trade unions to develop a new Working Together Agreement that will ensure our workforce is flexible enough to meet the increasing challenges we face. In return, we are committed to a five year pay deal with a minimum 1.5% annual pay award.

We also consulted with the trade unions and Defined Benefit Pension Scheme members to introduce changes to reduce the cost and future risk of running the Scheme. Consequently, changes have been made in 2015, employee contributions will increase by 2.5% in April 2016 and the scheme will close to future accrual with effect from 1 April 2017.

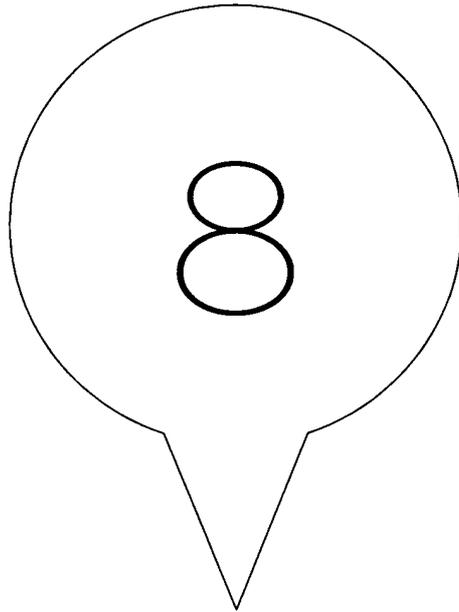
We plan to implement a phased reduction, over the next five years, of around 360 people currently involved in delivering our services. This will be achieved over a 5 year period from 2015 through a combination of methods, including not filling current vacancies; not replacing leavers or retirees and by launching a selective voluntary severance scheme. The estimated £18 million cost of this commitment has been provided for during the year.

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Looking ahead

During 2014-15, our colleagues completed more than 1,236 formal learning and development days across all disciplines, including operations, health and safety, and customer service. We are committed to investing in continually developing a competent workforce and our operational training programmes will continue to be accredited by external bodies such as City & Guilds and the Certification and Assessment Board for the Water Industry (CABWI).

Maintaining health and safety of colleagues will also be a key focus as we move forward. With the majority of accidents caused by slipping or lifting, we will continue to focus on the behavioural root cause of incidents in order to create the safest possible working environment for our people, so that everyone can return home safely at the end of each day.



Our ambition:

We will continue
to be an efficient
business with
a strong credit
quality



An efficient business

Introduction

As a company without any shareholders, our sole focus is our customers. Our vision is to earn customers' trust every single day by delivering the best possible water and wastewater services at an affordable price.

To do this, we must finance these services as efficiently as possible and so one of our overriding objectives since 2001 – when Glas Cymru was established with its non-shareholder model – has been to minimise financing costs.

As a result, our primary financing objective is to ensure that any returns are sufficient to finance our functions and achieve an optimal balance between low risk, low cost borrowing and affordability for our customers.

Highlights

As a company, we are financed by debt and the credit quality of our debt (which is a major factor in keeping our interest costs down) is therefore extremely important to the company and consequently our customers. As a result, we are pleased to have maintained the highest credit rating of any regulated utility company in the UK, for the fifth consecutive year. This allows us to raise funds for investment from long term investors at low cost bringing substantial benefits for Dwr Cymru customers now and in the longer term.

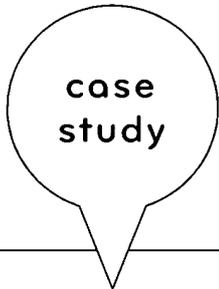
We have returned £136 million of value to customers over the past five years including accelerated investment. This has been delivered through a successful ownership model that has generated financial reserves – or Customer Reserves – of almost £2 billion. Our financial gearing (net debt to Regulated Capital Value) has now fallen to 60%, a level which the Board considers to represent best value for customers, balancing the cost of funding the business with the

need for continued investment in important projects to improve customer service, drinking water quality and protecting the environment.

Our turnover was slightly higher this year at £753 million (2014: £737 million) with underlying profit of £77 million (2014: £50 million). The increase in revenue largely reflects the RPI-X increase in prices of 2.05% allowed by Ofwat. Meanwhile, operational expenditure fell to £295 million (2014: £296 million). We have also established a provision for future restructuring costs between 2015 and

2020 which has resulted in an exceptional charge of £19 million.

Capital investment in our water and wastewater operations amounted to £379 million in 2014-15, bringing the total investment in our services between 2010 and 2015 to a record £1.5 billion – the equivalent of around £1 million a day during this period across the area we serve, or £1000 per household.



Stebonheath
Primary
School,
Llanelli

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**Jonathan Taylor, Vice President of the
European Investment Bank, said:**

"Continued investment in UK water infrastructure is essential to allow customers to access clean drinking water and sanitation that is amongst the best in the world. The new European Investment Bank engagement with Welsh Water announced today is the largest it has agreed with the company in more than two decades of doing successful business together. The impressive project seen in Llanelli demonstrates a clear commitment to protecting rivers across the Welsh Water area from pollution."

In January 2015, we welcomed the First Minister of Wales, Rt Hon Carwyn Jones AM, and the Vice President of the European Investment Bank, Jonathan Taylor, to Stebonheath Primary School in Llanelli to mark a £230 million loan facility secured by the company from the European Investment Bank (EIB). Welsh Water has benefited from loans of over £500 million from the

European Investment Bank since 2001 and the latest loan is being used to finance the company's extensive capital expenditure programme including a £15 million RainScope urban drainage investment in Llanelli and Gowerton. Our excellent credit quality and successful, stable business model enabled us to negotiate very attractive rates of interest with the EIB.



we have faced significant cost pressures over the past 12 months including increased energy and chemical costs.

Challenges

One of our greatest challenges remains the management of costs in a region not only characterised by geographical and topographical features, that make it very difficult to match the average levels of cost across the rest of the industry, but also given our customer profile (with some significantly deprived areas). In 2015, the cost of unpaid customer bills (bad debt) increased during the period to £29 million (2014: £28 million). The increase reflects ongoing difficult economic conditions for many of our customers. We are taking steps to ensure that the monitoring and recovery of customer debt are maintained at the highest levels whilst also helping those who genuinely struggle to pay.

Despite the overall reduction in operating costs, which have been facilitated by increasing our capacity to generate renewable energy and carefully managing budgets, we have faced significant cost pressures over the past 12 months including increased energy and chemical costs.



we're developing a new company strategy that will strengthen the role of customers at the heart of Welsh Water.

Looking ahead

The next investment period, 2015 to 2020, presents us with a number of new challenges. These include achieving even higher customer satisfaction, delivering investment to some tight regulatory deadlines, changing the way we report our performance, starting to adapt to long terms risks, challenges and opportunities whilst also reducing our overall controllable operating cost by around 20% and our retail business costs by over 30%, both before inflation. We are continuing to target maintaining the highest credit ratings in the UK utilities sector in order to provide value to customers by keeping our borrowing costs as low as possible.

To help meet these new challenges and remain fit for purpose, we're developing a new company strategy that will strengthen the role of customers at the heart of Welsh Water. This involves reshaping our core business into three clear business units – Water, Wastewater and Retail. Each unit will not only have its own key regulatory targets in terms of cost, service levels and outputs but will also work closely so that we deliver the best possible performance and value for our customers.

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Corporate Governance

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**Helena Machin,
Catherine Lunn
and Jack Davidson**
Supplying clean
drinking water to
customers across the
South Wales valleys

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Introduction from the Chairman

Effective corporate governance and a strong Board with a majority of independent Non-Executive Directors remains key to our ability to deliver essential public services to over three million people every day. Our unique corporate governance structure

means that the Board and management team are focused entirely on delivering the best possible outcomes for customers; supplying drinking water of the highest quality; and minimising the effect on the environment, while keeping bills to an affordable level.

This year saw the conclusion of efforts around the price review process for the period 2015-2020. This involved five additional Board meetings and time set aside at all Board meetings to deal with the process and submissions from July 2012 – January 2015. Glas Cymru Members also contributed during sessions at the AGMs and December meetings during this period and at two additional meetings of Members held in 2014. The effort involved from everyone concerned in this process paid off, in the form of a challenging but achievable Business Plan for 2015-2020 which was delivered by Ofwat in December 2014.

Ofwat issued guidance on corporate governance issues during the course of 2014, and in particular has continued to emphasise the importance of the independence of Non-Executive Directors. The Ofwat guidance principles can be found at ofwat.gov.uk. We have published a corporate governance code on our website (glascymru.com) which demonstrates compliance with Ofwat's principles, and in addition we comply with the 2012 UK Corporate Governance Code which is our principal governance framework.

The independence of the majority of our Board has been key to the Glas Cymru model since its creation in 2001. Our corporate structure is also designed to enhance our ability to act in the long term interests of customers, so that we can demonstrate that customers, present and future, are at the heart of the company's strategy.

The Board plays a crucial role in setting strategy, ensuring accountability from the executive team, monitoring performance and establishing the moral tone of the company and its culture. We have a clear diversity policy for Board level recruitment which is published on our website, and which will help to ensure that we maintain and enhance the diversity of our range of Directors. We are fortunate to benefit from Directors who have a wide range of qualifications and experience, and who provide a good gender and age balance. During the course of this year, we have begun a process to recruit a new Non-Executive Director to succeed James Strachan who will step down as a Director at the AGM in July, after eight years of service and latterly as Chairman of the Remuneration Committee.

Glas Cymru is also supported by its Members, 62 individuals from across the supply area who are not paid, but who give up their time and effort to ensure accountability of the company to its key strategies and to hold the Board accountable for good governance. This year we recruited fourteen new Members following a recruitment campaign which involved media and interest groups across the Company's supply area. The process for recruiting new members is managed by an independent Member Selection Panel, chaired by Glyn Mathias, who is entirely independent of the company. New Members were invited to join the December Members meeting held in Cardiff, as well as a Regional Meeting held on 13 March in Hereford and a

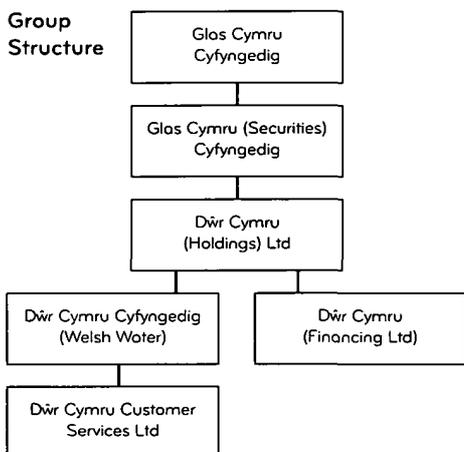
dedicated induction day held on 19 March at Cilfynydd, Llyn Onn Water Treatment Works and Cynon Wastewater Treatment Works. We look forward to seeing a good turn out from Members again in July at the AGM, which this year will be held at Elan Valley Visitor Centre.

The Company's Treasury team, led by Neil Webb, continues to work hard to ensure that our investors are well informed, through quarterly reports and the annual investor meeting in London, as well as regular informal meetings. The Board receives a report following meetings with investors and, where appropriate, takes into account the views expressed by investors on issues affecting the company. In January we announced a £230 million loan agreement with the European Investment Bank, and as part of the closing meetings for that transaction we were delighted to welcome members of the Bank to visit our RainScope urban drainage sites in Llanelli.

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

This report is presented in what the Directors consider to be a fair, balanced and understandable manner.

Robert Ayling
Chairman
5 June 2015



(Two other companies in the Group, Welsh Water Utilities Finance plc and Hydro 1 Limited, are dormant companies as of the date of this report).

Our Company Structure

Our Financial Statements (from page 100) 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 on-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.

* This included two Members who had to step down before the end of their maximum term of office which is nine years, owing to health issues. Each individual term is three years.

Our Governance Structure

We are proud of the unique corporate structure of Welsh Water. We don't have any shareholders so everything we do is entirely focused on benefitting our customers.

Role of Members

Glas Cymru is a company Limited by Guarantee. Our Members are a key element of our corporate structure, fulfilling the valuable role that shareholders would play in corporate governance.

The key role of our unpaid 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 Welsh Water's customers, both current and future. They ensure the good stewardship of the company's assets.

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 stakeholders' interests. Membership is personal, and therefore Members do not represent any groups or stakeholders. They do not receive fees, nor do they have a financial stake in the business.

There are presently 62 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. During 2014-15 eight Members stepped down* and 14 new Members were appointed by the Member Selection Panel, following a recruitment campaign in media across our supply area.

The independent Chair of the Member Selection Panel is Glyn Mathias, and its other Members are Arthur Walford and Menno Richards. The Panel appoints Members whose membership is then confirmed by the Board.

Members are asked to attend two formal Members' meetings each year. In 2014-15, we held two additional regional meetings at our wastewater treatment works in Llanberis (Snowdonia) and our water treatment works at Hereford. These smaller meetings enabled locally based Members to visit sites in their area and to learn more about the work of the company and have the opportunity to contribute views on key issues.

A list of the independent Members of Glas Cymru, together with our Membership Policy and the Terms of Reference of the Membership Selection Panel, is published on our website glascymru.com.



As I live and work in the financial world in London, I really enjoy the challenge and experience of sharing ideas and learning from fellow Members who bring their own perspectives and experiences from so many different areas – but all having the one objective – which is to assist and promote the best possible management of one of Wales' biggest companies.

Dr Rhian-Mari Thomas

Role of the Board

The Group's Board of Directors is collectively responsible for its long-term success. The Board sets the Group's strategic aims, monitors the performance of management against the strategic aims, ensures good governance, sets the risk appetite and ensures that effective controls are in place in the business. The Boards of Glas Cymru and Dŵr Cymru Cyfyngedig (the licence holder/operating company) are identical which ensures a unified approach.

There is a schedule of matters reserved for the Board under which the Board retains ultimate responsibility in areas such as strategy, risk and many other decisions. The schedule of matters reserved was last reviewed in March 2014 and is available on our website glascymru.com.

Board governance and leadership is essential to maintaining the confidence of our customers. The Executive team is open and transparent in its communications with the Board, in order to support this.

Role of the Chairman

The Chairman of our Board plays a key role in helping to ensure a unified Board, facilitating meetings, and ensuring good governance.

Meeting agendas are agreed in consultation with the Chief Executive 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.

Generally, the Chairman also meets individually with each Board Member to review individual performance during the year.

Role of the Senior Independent Director

The Senior Independent Director acts as the bridge between the Chairman and Non-Executives and liaises with our Members. The Senior Independent Director meets with the other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chairman. Menno Richards is the current Senior Independent Director, having taken on this role when John Bryant stepped down at the 2014 AGM.

Role of the Non-Executive Directors

Non-Executive Directors are appointed to the Board in accordance with our Diversity Policy, to contribute their expertise and provide independent challenge and rigour in the Board's deliberations.

Role of the Chief Executive

Beyond matters reserved for the Board, the Chief Executive has primary responsibility for setting the company's strategy and managing the day to day affairs of the company. The Chief Executive is supported by the Executive Team of Welsh Water in implementing strategy and day to day management.

Role of the Company Secretary

The Company Secretary is responsible for supporting the Chairman in ensuring that the Group demonstrates good governance. The Company Secretary is available to the Non-Executive Directors and works to ensure that there are good information flows to the Board and its committees and between senior management and the Non-Executive Directors.



I had considerable involvement with Welsh Water in my former role as an environmental health officer dealing with sewage disposal issues, sea water standards and drinking water quality and was always impressed by the professionalism and enthusiasm of the staff I dealt with and the obvious pride they had in the company.

Cllr Bob Squire

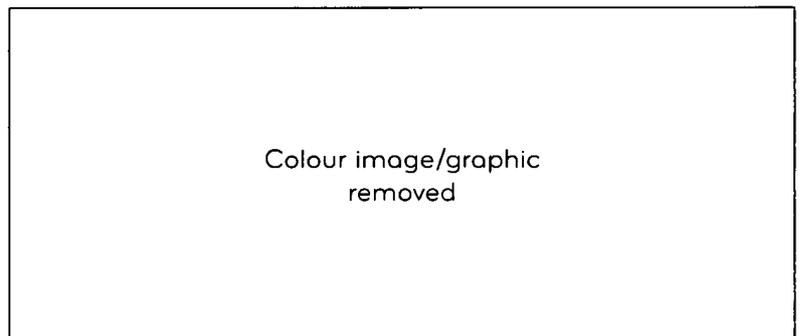
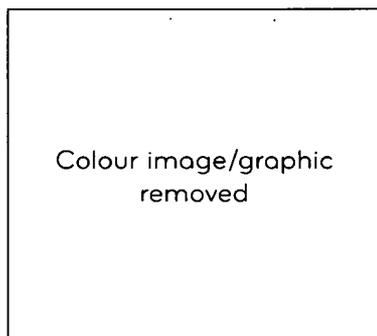
Appointments

The company's Articles of Association empower the Board to appoint new Directors. The Board is committed to ensuring the right balance of skills and experience and diverse backgrounds. Directors must display independent judgement and an ability to challenge constructively. The search for Board candidates is conducted by the Nominations 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. The Non-Executive Directors' letters of appointment are made available for public inspection upon request to the Company Secretary.

Welsh Water is committed to promoting diversity, non-discrimination, and equality of opportunity in the way we treat employees, prospective employees, visitors, clients, customers and suppliers. The Board has documented its approach to recruitment in a Diversity Policy which it is committed to following.

Induction and development

Directors receive a personalised induction process, 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. In 2014-15 our Board received competition law training as part of the rollout across the company. This year the Board has held site visits and meetings around the business, visiting the Elan Valley visitor centre and reservoirs, Cynon Wastewater Treatment Works and the sewerage network in the Valleys. The Executive team has met in various locations in North and South Wales and site visits have included the Llonberis Wastewater Treatment Works, the new depot at Bodelwyddan, Felindre Water Treatment Works and the call centre teams in Lineo.



Length of service

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

Gender diversity

The Board is committed to having an appropriate level of diversity across all levels of the business, and in particular with regard to the representation of women, and we meet the Davies Report suggested targets at Board level. Currently, 29% of our Non-Executive Directors are women, 30% of the Executive team are women and 31% of Welsh Water's wider Leadership Team are women. The gender diversity statistics for the whole company are available on page 55.

Balance and independence

The Board and Committees have an appropriate composition to undertake their responsibilities effectively. The Board keeps its membership and that of its Committees under review to ensure that an acceptable balance is maintained. The Board is satisfied that all Directors have adequate time to commit to their role and that there are no cross-Directorships or significant business interests in common between members of the Board.

All of our Non-Executive Directors have been determined to be independent in accordance with the Corporate Governance Code and 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.

James Strachan will step down as a Non-Executive Director in July 2015. He has been a valuable Member of the Board since 2007 and has brought his considerable experience of financial and corporate governance matters to bear to enable him to challenge and support the Executive team effectively.

Peter Bridgewater was appointed Finance Director in September 2014 to take up the role vacated by Chris Jones on his promotion to Chief Executive.

From September 2013 to September 2014, Mike Davis was Acting Finance Director, and with effect from September 2014 he was appointed Director of Strategy and Regulation which is not a Board position.

In order to ensure that we have an effective Board, we undertake a review once a year to provide opportunity for continuous improvement. The conclusions of the March 2015 review were largely positive, but highlighted opportunities for improvement as regards the Board's focus on strategic issues, the approach to risk management and the content and format of Board papers. The Board has agreed an action plan to address these issues further in 2015-16.

Re-election of Directors

In accordance with the 2012 UK Corporate Governance Code, all Directors seek re-election every year by Members and any Director appointed during the year seeks election at the next AGM. Accordingly, Peter Bridgewater formally seeks election as a new Director, having been appointed with effect from September 2014.

Board Meetings

In 2014-15 the Board held nine scheduled meetings and three additional meetings which were called to deal with issues arising in the course of the PR14 price review process. 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. In the past year, the strategic issues focused on by the Board have included: the price review process; risk; the company's Business Plan for the period 2015-20; and organisational transformation, including changes to the Group Pension Plan and Working Together Agreement with the Trade Unions.

Attendance

When a Director is unable to participate in a meeting the Chairman will seek their views on key items ahead of the meeting so that these can be added to the discussion.

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 must immediately disclose conflicts, or potential conflicts, of interest. In addition all Directors sign an annual declaration and disclose their external appointments.

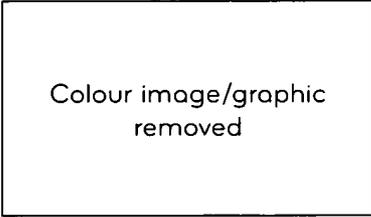
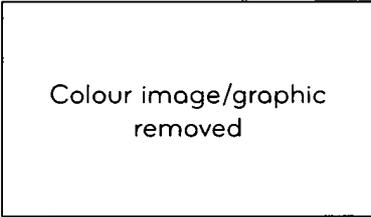
External Appointments

During 2014-15 none of the Executive Directors held an external Non-Executive appointment and for which they were separately remunerated.



The Directors

(As at 31 March, 2015)

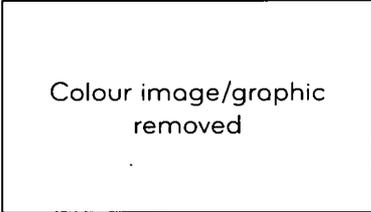
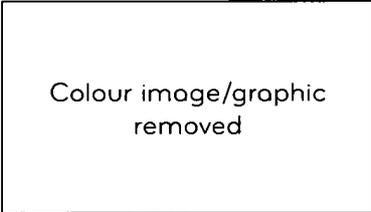
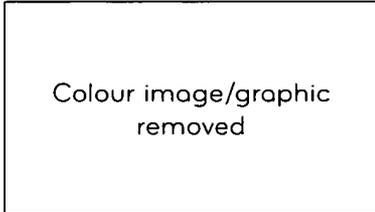


**Robert Ayling
Chairman**

Appointed a Non-Executive Director in April 2008, Robert became Chairman of Glas Cymru in July 2010. He is also Independent Chairman of HM Courts & Tribunals Service. A solicitor by profession, 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 Ltd, The International Dispute Resolution Centre Ltd, Sanctuary Group Plc and Holidaybreak plc and a Non-Executive Director of Royal & Sun Alliance Insurance Group plc and QANTAS.

**Menna Richards
Senior Independent Director**
(Appointed with effect from July 2014)

Appointed a Non-Executive Director in November 2010, Menna Richards' executive career was in broadcasting as Director BBC Cymru Wales (2000 –2011) and previously Managing Director, HTV Wales. She is also a Non-Executive Director of the Principality Building Society and of Welsh National Opera. She is a trustee of the ALOUD charity. She has been Chair of Governors of the Royal Welsh College of Music and Drama and is currently Vice-President. Menna was also a board member of the Cardiff Bay Development Corporation.



**Chris Jones
Chief Executive**

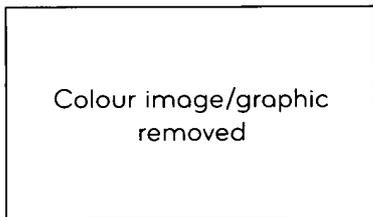
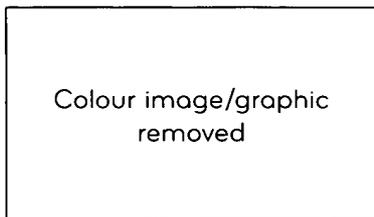
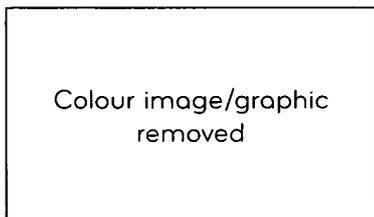
Chris became Chief Executive in September 2013 having previously been Finance Director of Welsh Water since May 2001 and Glas Cymru since April 2000. He has also previously served as Director of Regulation of Welsh Water and South Wales Electricity Plc. Before joining Welsh Water in 1995, he was a Director at National Economic Research Associates and, prior to that, worked for HM Treasury. He is Deputy Chairman of the Council of the Prince's Trust - Cymru. He has previously been a Non-Executive Director of the Principality Building Society, and a Trustee of the Institute of Welsh Affairs.

**Peter Bridgewater
Finance Director**

Peter joined Glas Cymru as Finance Director in September 2014 having previously been Chief Finance Officer for the UK, South Africa and the Americas at Sembcorp Industries covering eight water and energy businesses. Prior to joining Sembcorp, Peter held a number of roles at E.ON UK Plc including Managing Director of its Commodity Trading Division; Finance and Risk Director of its Generation Division; Strategy and Finance Director of Power Distribution; and Strategic Retail Director E.ON Energy Retail. Peter, a Chartered Accountant, has also worked for Powergen and Coopers and Lybrand and studied Psychology at Durham University.

**Peter Perry
Chief Operating Officer**

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 Welsh Water for over 20 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.



**Professor Stephen Palmer
Non-Executive Director**

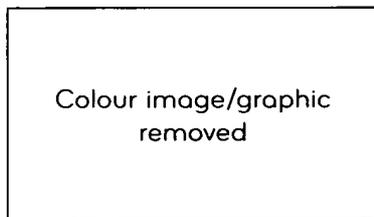
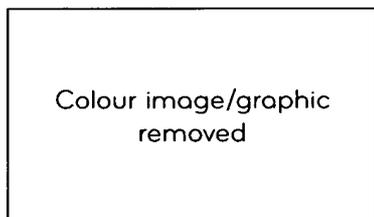
Appointed a Non-Executive Director in October 2009, Professor Palmer is Emeritus Professor of Epidemiology and Public Health at Cardiff University. From 2003 until July 2010, he was Director of the Health Protection Agency's chemical hazards division, local and regional services division, and head of profession for epidemiology in the HPA. 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 and chemical hazards.

**James Strachan
Non-Executive Director**

Appointed a Non-Executive Director in June 2007. James is a Non-Executive Director of JP Morgan Asian Investment Trust PLC and Sarasin and Partners LLP. 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, Core UK plc and Social Finance Limited, a Board member of Ofgem (the energy regulator), Senior Visiting Fellow in risk and regulation at LSE, chairman of the charity RNID and Managing Director of Merrill Lynch.

**Anna Walker
Non-Executive Director**

Appointed a Non-Executive Director in March 2011, Anna has a wealth of experience in regulation, customer service, policy making and working with governments. She is Chair of the Office of Rail Regulation and undertook an independent review for 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 Chair of the charity Young Epilepsy, a former Vice Chair of Consumer Focus, the statutory consumer champion body and a member of the Council of Which?



**John Warren
Non-Executive Director**

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 a Non-Executive Director of Greencore Group plc and 4imprint Group plc.

**Graham Edwards
Non-Executive Director**

Appointed a Non-Executive Director in October 2013, Graham is currently Chief Executive Officer of Wales & West Utilities (WWU). He has significant senior management experience in the utility sector running electricity distribution and water businesses with South Wales Electricity, Hyder and Thames Water. He has held senior positions in various functions across a wide range of businesses including Engineering, Production, Human Resources and Operations. He is a Fellow of the Chartered Institute of Personnel & Development and immediate past Chair of CBI Wales.

Committees

In order to ensure the Board fulfils its role effectively, certain responsibilities of the Board are delegated to Committees, which play an important role in working with management to ensure our business is financially strong, well governed and risks are identified and mitigated.

Each Committee has written terms of reference (available on our website glascymru.com), which have been approved by the Board, which summarise the responsibilities delegated to it.

Our principal Board committees are:

- Nominations Committee
- Finance Committee
- Audit Committee
- Quality and Environment Committee ('QEC')
- Remuneration Committee.

Upon joining a Committee, Directors are provided with an appropriate induction and are offered ongoing training and education opportunities. After each meeting, a summary of matters discussed is reported to the Board, and committee minutes are circulated to Directors. Each committee 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, each Director commits additional time and input on the following matters: public health (Stephen Palmer), operations (Graham Edwards), customer service and regulation (Anna Walker), finance and audit (John Warren), finance, regulation and remuneration (James Strachan), communications and Member relations (Menno Richards) and government and regulation (Robert Ayling).

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 response to feedback from the Board effectiveness survey in March 2014, the Executive team reviewed the approach to managing risk and made some changes to processes and controls in place. A detailed review of risk is available on pages 22-25.

In considering the development of the system of controls, the Executive team reviewed 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:

- identification of key strategic risks and hazards facing the business, the scale of which is identified and managed to an acceptable level
- reviewing emerging and current issues at meetings of the Executive and the Quality and Environment Committee
- clear management accountability for risk management, supported by regular risk reporting to the Board, the Quality and Environment Committee and the Audit Committee
- consideration of acceptable risk parameters set by the Board, particularly in the context of the business planning process for the purposes of the next five year period
- implementing controls that recognise that the nature and balance of risk changes and evolves

- implementing 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
- ensuring that financial systems and procedures are fit for purpose for preparing consolidated accounts.

The Board receives assurance from independent work by Welsh Water's technical advisor (Block & Veatch) and from the programme of internal and quality audit, the major findings from which are reviewed at the Audit Committee and the Quality and Environment Committee. A strategic risk update is considered at each meeting of the Board and a strategic review of risk is considered twice a year under a process chaired by the Chief Executive, who submits an update to the Board of the Executive team's view of the key strategic risks facing the business so that this can be considered by the Board as a whole.

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 throughout the course of the year.



Reports from the Committees

A report from the Chairman of the Nominations Committee

Chairman: Robert Ayling

Members: each of the Non-Executive Directors and the Chief Executive

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, where appropriate, recommend candidates for Board appointment.

This year the Nominations Committee has been involved in identifying an independent Non-Executive Director to succeed James Strachan. In order to do this, we engaged the services of Odgers Berndtson to help us.*

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

The Board monitors succession planning at a senior management level and has documented its approach to recruitment in a diversity policy which it is committed to following.

Robert Ayling

Chair of the Nominations Committee
5 June 2015

Finance Committee Report

Members: Robert Ayling (Chairman); Peter Bridgewater; Chris Jones; James Strachan and 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 2014-2015, the Finance Committee was requested and provided approval for such decisions on two occasions.

Robert Ayling

Chair of the Finance Committee
5 June 2015

Audit Committee Report

Members:** John Warren (Chairman); Robert Ayling; Anna Walker and Graham Edwards.

The Audit Committee met on 4 occasions during 2014-15. As in previous reporting periods, during the early part of the financial reporting year 2015-16, the Audit Committee has met on a further 2 occasions to receive the report from the external auditors on the 2014-15 annual report, focussing in particular on the key issues of judgement in the financial statements, and with a view to ensuring that the Annual Report for 2014-15 presents a 'fair, balanced and understandable' picture of the company's financial status, in accordance with the 2012 revised UK Corporate Governance Code.

The Audit Committee, and the external auditors, focus particular attention, at each reporting period, on those areas in the financial statements which have the highest level of management judgement applied to them or are considered to be the most inherently risky. For the end of year financial statement, these were as follows:

Implementation of the RapidXtra billing platform and the impact on the measured income accrual

The committee received regular updates on project progress, both prior to and subsequent to the implementation date. The committee were satisfied that sufficient preparation had been undertaken by the management team to enable the Group to commence with the change in billing platform during January 2015. As part of the year end meetings, the committee discussed the audit work performed by PwC, which included a review of the IT related controls and the migration of data from the old billing system to RapidXtra and were satisfied with the conclusions drawn from that work.

For the 2014-15 accounts, RapidXtra generated an estimate of the income due from metered customers for the period between their last meter reading and the balance sheet date. The estimate is based on consumption over the preceding twelve months and is reviewed by management as the basis for setting the measured income accrual. As at 31 March 2015, this estimate was £67 million, approximately 25% of the total measured income revenue. The Committee reviewed the report presented by PwC on their audit work performed in this area and concluded they were comfortable with the estimate recognised in the accounts.

* Odgers Berndtson has no other connection with the company

** Menna Richards stepped down in November 2014.

Anna Walker and Graham Edwards joined from November 2014

Provision for impairment of trade receivables

The level of provision required was based on an assessment of historical cash collection performance and having regard to ongoing economic uncertainty and the reform of the state welfare system, as well as planned initiatives to target improvements in collection rates.

In making its recommendation to the Audit Committee management examined cash collection performance for measured and unmeasured customers during 2014-15, concluding that Welsh Water could ultimately expect to collect some 40% of debt outstanding at 31 March 2015 (2014: 36%). Given all of the historical collection information available to date, the Audit Committee concurred that Welsh Water's bad debt provision be set at £79 million (2014: £66 million) which generates a bad and doubtful debt charge for the year ("trade receivables impairment") of £29 million (2014: £28 million).

Retirement benefit obligations

Calculation of the defined benefit pension liability for inclusion in the balance sheet in accordance with IAS 19 requires the use of two key financial estimates, namely the discount rate and future inflation.

The assumed discount rate was derived from the yields of AA- rated corporate bonds, and the assumed level of inflation was determined having regard to the difference between the yields on fixed interest and index-linked government bonds as well as other sources of inflation forecasting.

The committee discussed these assumptions with PwC who noted that the assumptions were within an acceptable range, albeit at the optimistic end of that range. These generated an IAS 19 and balance sheet deficit of £33 million, an increase of £30 million since March 2014, largely as a result of changes in the discount rate, reflecting the reduction in expectations for long term interest rates. The Committee concluded that the assumptions used were acceptable for the purposes of the accounts.

Capital cost allocation

The committee reviewed the report presented by PwC on their audit procedures relating to the allocation of capital costs in the period. The committee were satisfied that the approach adopted by management was consistent with previous periods and did not represent a critical judgement for the Group in the period.

Derivative financial instruments

The fair values of derivative financial instruments are provided by swap counterparties. The Bloomberg financial dataset platform allows management to perform an independent valuation of these contracts which is then compared to the counterparty confirmations. Given the inherent judgements in the long term assumptions associated with these instruments, the Audit Committee noted some minor adjustments were made to the original valuations as part of the PwC audit procedures. The total balance sheet liability at 31 March 2015 amounted to £422 million (2013: £265 million).

Other matters

The committee also considered non-recurring events relating to the external audit, specifically the acquisition of Hydro 1 Limited and the recognition of a restructuring provision in the period. PwC's paper was considered in light of these items and the committee were satisfied the accounting was in accordance with IFRS.

Other activities of the Audit Committee

During 2014-15, two of the four meetings focused specifically on reviewing the Group's preliminary and interim financial results and related areas of judgement and accounting policy.

The Audit Committee relies on the active role played by the Business Assurance (Internal Audit) function of the Group. The Committee approves the Business Assurance detailed annual plan, and receives regular updates on progress in carrying out the programme. The Committee challenges management's assessment of key financial and business risks and seeks assurances as to the mitigation strategies put in place to address these. Feedback on the discussions at Audit Committee meetings is provided at Board Meetings, and all Directors receive copies of the Minutes.

The Committee also regularly receives, at private meetings, of the Committee a detailed report on any disclosures since the previous meeting which have been made under the Group's whistleblowing policy, and monitors investigations and follow-up actions undertaken as a result. In 2014-15, various issues were raised under the whistleblowing procedure, including allegations of failures to follow the company's procurement policies, which have led to the tightening of procedures and improved training.

Other topics reviewed by the Committee during 2014-15 included:

- the progress of Project Newid, the programme to implement a new billing system, RopidXtra, which was installed in January 2015
- the controls and processes being put in place to address risk management across the business
- information security issues and external threats to the security of our IT systems
- IT disaster recovery arrangements
- the content of quarterly reports to Glas Cymru's investors
- controls in place to ensure accurate and complete reporting to regulators
- treasury policy and controls, including a detailed review of the bank rating triggers in light of worsening credit ratings for some of the company's banks, which breached minimum rating thresholds for the liquidity facilities.

External audit services are currently provided by PwC LLP. Our policy is that the external auditors will not be used for internal audit services, all non-audit work above a threshold of £25,000 will generally be subject to a prior competitive tendering and that all non-audit work is subject to prior approval by the Committee, or in an urgent situation, by the Chairman of the Audit Committee. The figures for non-audit and audit fees paid to PwC LLP during the year 2014-15 appear on page 113 of the Financial Statements section.

This year, £70,000 (approximately 63% of the total statutory audit fee earned by the auditors) related to non-audit work. These fees were incurred primarily as a result of work undertaken in connection with a governance review of Project Newid - the development and implementation of the new billing system.

In the case of the work to support the review of Project Newid and the audit related services typically performed by the auditors, the auditors were only instructed to carry out this work after a full and thorough assessment of the value case for using the auditor and of the skills and experience that the auditor would bring to each assignment in the best

interests of the Company. In each case, the Chairman of the Audit Committee was consulted prior to the instruction being given.

The role of internal audit/business assurance is to provide assurance and to advise management and the Board Committees on the extent to which systems of internal control and arrangements to manage risk are appropriate and operate effectively. The Audit Committee also receives independent advice from and assurance from Welsh Water's Reporter (Black & Veatch) in relation to regulatory reporting issues.

Audit plans for both internal and external audit are focused on those areas identified as potentially being of greatest risk to the business. The Audit Committee has approved the external and internal audit plans for 2015-16 and has met privately (without the Executive Directors present) with both the external auditors and the Head of Business Assurance.

On the basis of this work, and regular meetings with management, we have concluded that external and internal audit continue to operate effectively and independently.

In order to ensure that we have an effective Audit Committee, we undertake a review once a year to provide opportunity for continuous improvement. In March 2015 we undertook an internal committee review using an electronic survey resource; the outcome of the evaluation was reviewed by the Chairman and presented to the committee at its May 2015 meeting. The results were generally very positive, with areas for additional focus being identified in relation to risk management and internal audit strategy.

An action plan has been created to address these points over the coming months.



John Warren
Chair of the Audit Committee
5 June 2015

Report from the Chairman of the Quality and Environment Committee

Members: Stephen Palmer (Chairman), Robert Ayling, Graham Edwards, Chris Jones, Peter Perry, Ion Christie (Director of Water Services), Steve Wilson (Director of Wastewater Services), Tony Harrington (Director of Environment), Steve Brown (Independent Advisor), Andrew Davies (Independent Advisor).

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 meets at various sites across the company's supply area. In 2014-15, these sites included Elan Valley reservoirs and visitor centre and Cynon Wastewater Treatment Works. The Committee also visited the community in Treorchy, South Wales that was subject to sewage flooding in December 2013 and learnt about the clean-up operation and support provided to customers.

There are eight meetings of the Committee each year and these are equally divided between a focus on monitoring performance and reviewing strategy in detail.

The Committee reviews the company's performance in detail against key water quality, environmental performance and health and safety indicators, and ensuring appropriate lessons are learned from performance failures; and ensuring appropriate strategies and procedures are in place to comply with statutory and regulatory requirements.

The topics covered by the Committee in 2014-15 included:

- water quality
- Mean Zonal Compliance issues
- discolouration issues and customer contacts
- service reservoirs
- customer service
- leakage
- flooding
- health & safety issues
- pollution incidents

- progress on environmental performance and considering the impact of likely future developments

- innovation and strategy

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

- 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 and data analysis
- building relationships of trust with the company's regulators
- 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 Chief Executive Officer for those deemed serious by the Committee), and maintains oversight of the programmes of risk management and of internal and external audits. A serious incident review was carried out in respect of incidents at Cilfor, Church Village and Treorchy (closure report).

The focus of the Committee is on:

- interpreting and understanding the data collated by the operational teams in a way which informs risk management and future strategic planning
- ensuring arrangements for risk management are fit for purpose to identify key risks promptly and manage them appropriately
- enabling continuous improvement of systems and processes and ensuring staff receive appropriate training
- monitoring of the ongoing function of systems and processes and appropriate management oversight
- developing strategies to ensure compliance with our statutory duties and regulatory requirements
- water quality and environmental quality performance data referred to in this report is for the calendar year 2014
- Other performance information (such as customer service measures and performance against Ofwat's service standards) is given for the regulatory reporting year 1 April 2014 to 31 March 2015.



Professor Stephen Palmer
Chair of the Quality and Environment Committee
5 June 2015



Remuneration Committee report

Statement from the Chair of Committee

The 2015 report from the Remuneration Committee provides details of the remuneration paid to Directors in the financial year 2014-15 and our Remuneration Policy for 2015-16 and beyond.

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.

This year was the final year of the AMP5 regulatory period. AMP5 was the most challenging since privatisation, with price increases for Welsh Water's customers being kept below the rate of inflation in each year of the period. To deliver this, Welsh Water has had to reduce controllable operating costs by around 20% before inflation while improving customer service performance, meet challenging serviceability targets and deliver a £1.5 billion capital investment programme. Overall, service performance has improved over the AMP5 period, in line with our objectives. The Company's improving financial strength will help create greater customer value.

Aligned with the start of the new regulatory period the Remuneration Committee has undertaken a review of the variable pay arrangements.

We are proposing changes to simplify the Annual Variable Pay Scheme ('AVPS') and enable the Board and the Remuneration Committee to increase focus on a smaller number of performance measures each year to deliver significant improvement in the year ahead. The Long Term Variable Pay Scheme ('LTVPS') was linked

to the AMP5 regulatory period and, therefore, the Remuneration Committee is proposing the establishment of a new LTVPS.

Remuneration paid to the Executive Directors in respect of the financial year ended 31 March 2015 was as follows:

- a base salary (which had been increased by 2% in April 2014). In addition, in September 2014 on the anniversary of his appointment, the Remuneration Committee reviewed the Chief Executive's base salary and recognising his development in the role to date approved an increase in salary to £284,000 per annum.
- under the AVPS 2014-15 awards have been made equivalent to 24.7 percentage points ('%') of base salary for performance against the Performance Scorecard, 40.0% for operating cost performance and 14.7% against Strategic and Personal objectives, making a total award of 79.4% of base salary. This compares with a maximum of 100% of base salary and awards of between 49.8% - 53.6% of salary for performance in 2013-14.
- under the Long Term Variable Pay Scheme 2010 (LTVPS), staged awards may be made under the Customer Reserves element of the scheme (see page 82). 2014-15 was the final year of the plan and it was determined that the maximum Long Term Award was achieved over the five year

AMP and therefore executives were awarded the full 150% of average salary less payments made to date (66% paid in previous periods). Welsh Water's ranking was 2nd in the Ofwat SIM league table for 2014-15 which resulted in an award of 22.5% of salary being made under the Customer Service Award which is calculated on a rolling three year average. (See page 80).

Peter Bridgewater joined the Boards of Dŵr Cymru and Glas Cymru Cyfyngedig as the new Finance Director on 1 September 2014 on a salary of £229,500 per annum with a remuneration package in line with our policy in the table as outlined on page 77.

Key points in relation to the Executive Directors remuneration for the financial year ending 31 March 2016 are:

- Executive Directors' salaries were increased by 1.5% in April 2015. This is the same as the 1.5% general pay award received by employees.
- under the AVPS the quantum (as a percentage of salary) that can be earned in 2015-16 remains at 100% of salary. The changes to the plan for 2015-16 include changing the weighting of the different elements to enable greater focus and incentive where improvement is most needed, reducing the number of measures of success and measuring cost through TOTEX rather than OPEX



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.

—under the LTVPS the overall quantum that can be earned in the AMP6 regulatory period is unchanged at 300% (ie. 60% per annum) of salary. Half of the LTVPS is unchanged and will continue to be dependent on customer service. The remaining half of the award will continue to be subject to a financial measure but it is proposed that for the next regulatory period a combined measure of the growth in Customer Reserves and Transfers to the Customer Payment Account is used. Payments in respect of this award will be up to 30% of salary per annum and not subject to the stage payment profile that existed under the AMP5 LTVPS.

The Committee is satisfied that whilst the remuneration arrangements include variable elements linked to performance, the Policy does not encourage undue 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 calibre employees.

Further details on how our Remuneration Policy functions and how it is implemented in practice can be found in the Policy Report and Annual Report on Remuneration that follow.

In accordance with the remuneration regulations applying to UK quoted companies, at the 2014 Annual General Meeting ('AGM') two separate resolutions approving the Policy Report and the Annual Report on Remuneration were put to the Members for the first time. In view of the proposed changes to the AVPS and LTVPS at the 2015 AGM Members will be asked to vote on two separate resolutions again to approve the new Policy Report and the 2014-15 Annual Report on Remuneration. In addition, Member approval will be sought for the new LTVPS.

This Remuneration Report has been prepared in accordance with the provisions of schedule 8 to the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended) and is fully compliant with provisions of The UK Corporate Governance Code ('the Governance Code').

James Strachan
Chair of the Remuneration
Committee
5 June 2015



Policy report

Remuneration Policy

The principles and framework of the current Remuneration Policy will be approved by Members at the AGM on 3 July 2015 and if so approved will be effective from the date of the AGM.

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 commences in April 2015 ('the AMP6 period'). This is achieved by paying remuneration at levels which are sufficiently competitive to recruit and retain high calibre employees whilst ensuring that remuneration packages are structured so as to discourage inappropriate risk taking.

The Policy is delivered by:

- 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.
- encouraging improved performance by having a significant proportion of total remuneration being delivered via variable pay - although the majority of the target package is base salary to ensure that executives are not encouraged to take inappropriate risk.
- focusing incentives on the relative performance of Welsh Water - 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.

The Remuneration 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 calibre employees. This in turn ensures that it is well aligned to the long term success of Welsh Water and the interest of its customers.

When formulating the Remuneration Policy and the implementation of it, the Remuneration 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.

The Company negotiates salaries for the wider workforce with the three recognised trade unions via a single table approach. The Remuneration Committee considers the agreed increase for the wider employee base and

also reviews market practice and conditions. It should also be noted that the Measures of Success and cost element used in the Executive Directors' AVPS are applied in a similar way in variable pay arrangements across the organisation, promoting a unified business culture and consistency in our performance assessment.

The LTVPS is focussed on the long term strategic and financial performance of Welsh Water, and is reserved for the Executive Directors who are in a position to influence such performance.

The Chair of the Remuneration Committee regularly discusses remuneration issues with Members at Members' meetings and values their input in helping to shape Welsh Water's Remuneration Policy.

The table overleaf provides a summary of the components constituting the Executive Directors' remuneration packages as per Welsh Water's Remuneration Policy.

For the avoidance of doubt, in approving this Directors' Remuneration policy, authority is given to the Company to honour any commitments entered into with current or former Directors that have been disclosed in previous remuneration reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise as required under the Remuneration Regulations.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To help recruit, retain and motivate high calibre employees	Normally reviewed annually and any increases applied 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 — takes periodic account of levels in other utilities 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. Current salaries disclosed in the Annual Report on Remuneration	None
Benefits	To provide a market competitive benefits package to help recruit and retain employees Healthcare benefits promote business continuity.	Directors are entitled to private health cover and life insurance The Chief Executive and the Chief Operating Officer have a historic entitlement to permanent health insurance Directors do not receive company cars or car allowances Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate.	Value of benefits is based on the cost to the Company and is not predetermined.	None
Pension	To help recruit and retain high calibre employees Discrete post-retirement planning provision.	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 are automatically enrolled in the DCWW Group Personal Pension Plan with the opportunity to opt out and receive a cash allowance equivalent to the prevailing Employer contribution.	Up to 1/45th of salary accrual for each year of pensionable service subject to maximum of 2/3rds of final pensionable salary Maximum employer contribution to the DCWW Group Personal Pension Plan of 11% providing the employee contributes 6% or more.	None
AVPS	To incentivise the annual delivery of stretching targets and delivery of personal objectives.	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 Remuneration Committee after the year end based on performance against targets <ul style="list-style-type: none"> — Paid as cash — Not pensionable — Clawback provisions apply in the following circumstances: <ul style="list-style-type: none"> - Restatement of accounts - Material misrepresentation - Gross misconduct or caused reputational damage to the Company or Group Company AVPS awards may be clawed back either prior to the payment of the award for a particular Financial Year or for a period of 6 years from the date of payment.	Maximum AVP potential of 100% of salary, for the achievement of stretching performance conditions	Measures will be aligned to the Business Plan themes of Customer, Compliance and Cost with additional Annual focus and Personal targets See page 79
LTVPS	<ul style="list-style-type: none"> — To align the long term interests of the Executive Directors with those of Welsh Water's customers and stakeholders — To incentivise achievement of value creation over the long term — To aid retention 	Cash awards based on stretching performance targets relating to: <ul style="list-style-type: none"> — Rolling three year relative SIM performance — Combined measure of the growth in Customer Reserves and Transfers to the Customer Payment Account Clawback provisions apply in the following circumstances: <ul style="list-style-type: none"> — Restatement of accounts — Material misrepresentation — Gross misconduct or caused reputational damage to the Company or Group Company LTVPS awards may be clawed back either prior to the payment of the award for a particular Financial Year or for a period of 6 years from the date of payment.	300% of salary over the five year regulatory period to 31 March 2015.	50% based on relative SIM performance 50% based on financial performance See page 79
Non-Executive Directors	Provides an appropriate level of fixed fee to recruit and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties.	The Remuneration 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. All directors may be paid for additional expenses incurred in connection with their role on the Board and any taxable benefit implications that may result.	Non-Executive Directors do not receive any additional fees for chairing committees	None
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. This approach will apply to both internal and external appointments. — The policy will be for the new Executive Director to participate in the remuneration structure detailed above. Exceptions to this could be setting different measures or implementing transitional arrangements should an Executive Director join part way through the 5 year regulatory period. For internal promotees to Executive Director, entitlement to previously accrued AVPS, up to the appointment date will be unaffected. — Should it be the case that the Remuneration Committee considers it necessary to buy out incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, will be structured so that the terms of the buyout mirror the form and structure of the remuneration being replaced.
Policy for payments to departing executives				<ul style="list-style-type: none"> — 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. — 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. — 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. — In the event that the Company terminates the Executive's employment, the Company will take legal advice and will pay to the Executive only such amount as the Executive is legally entitled to receive. — In the event of cessation of employment AVPS and LTVPS awards will be treated in line with the relevant scheme rules which describe the treatment of any payment with reference to 'good' or 'bad' leaver terms.

Service Contracts

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 '08
James Sirachan	1 June '07
Stephen Palmer	26 October '09
Menna Richards	22 November '10
Anna Walker	3 March '11
John Warren	3 May '12
Graham Edwards	1 October '13

Copies of the service contracts can be requested via the company secretary.

Discretions retained by the Remuneration Committee

The Remuneration Committee operates the Annual Variable Pay Scheme and the Long Term Variable Pay scheme according to the rules of each respective Scheme and consistent with normal market practice, including flexibility in a number of regards. The method by which the Remuneration Committee will retain flexibility includes consideration over:

- when to make awards and payments
- how to determine the size of an award, a payment, or when and how much of an award should vest
- how to deal with a change of control or restructuring of the Group
- whether a director is a good/ bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original payment date(s)
- what the weighting, measures and targets should be for the Annual Variable Pay Scheme and Long Term Variable Pay Scheme from year to year.

The Remuneration Committee also retains the discretion within the policy to adjust targets and/ or set different measures and alter weightings for the Annual Variable Pay Scheme and to adjust targets for the Long Term Variable Pay Scheme if events happen that cause the Committee to determine that the schemes are unable to fulfil their original intended purpose.

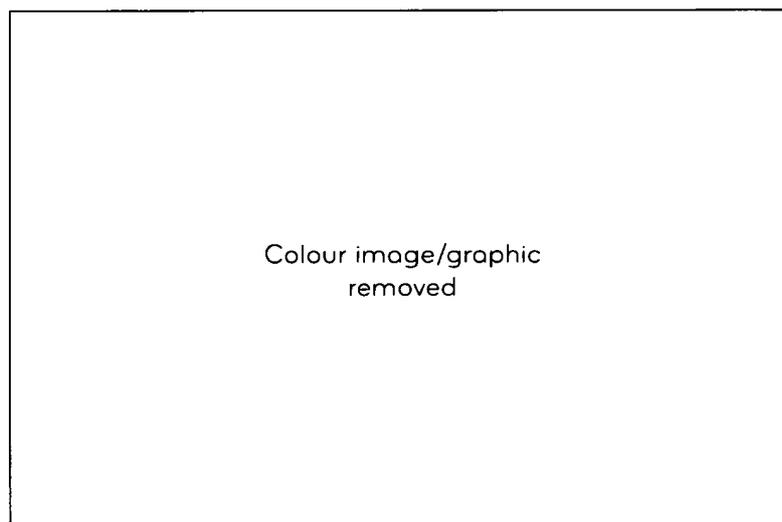
Policy on external appointments

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.

Performance Scenarios

The Remuneration Committee aims to provide an appropriate proportion of the Executive Directors' total remuneration through performance related variable pay. Figure 1 shows a breakdown of the value of the various elements of the remuneration package, assuming threshold, target and maximum levels of performance are achieved. The aim of the Remuneration 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 showing Base, Target and Maximum Emoluments



The following assumptions have been made in preparing these charts:

1. Fixed pay only - fixed pay only with no vesting under the AVPS or LTVPS. Fixed pay comprises salary as at 1 April 2015, value of benefits and increase in pension value in the 2014-15 financial year as disclosed in figure 8 on page 83. The pension figure for Chris Jones is substantially higher than previous and anticipated future years due to the salary increases arising from his promotion to Chief Executive.
2. Total target - fixed pay plus AVPS of 60% of the maximum (i.e. 60% of salary), and LTVPS of 50% of the maximum (i.e. 30% of salary).
3. Total maximum - fixed pay plus maximum AVPS and LTVPS.
4. Finance Director commenced in role 1 September 2014, however per annum figures have been used.



Annual Report on Remuneration



Remuneration Policy for Executive Directors in more detail

Salary

Following a review in March 2015 the Remuneration Committee has set the base salaries for the Executive Directors for 2015 (effective 1 April 2015) shown in figure 2. This mirrors the average employee increase of 1.5%. The Company negotiates with employees via a single table approach with GMB, UNISON and UNITE trade unions. During the 2015 general pay award negotiations for employees, details of Executive Directors' salaries within Welsh Water and the Water Industry generally were considered.

Figure 2 Executive Director base salaries

	Effective 1 April 2014	Effective 1 Sept' 2014	Effective 1 April 2015
Chris Jones	£275,400	£284,000	£288,261
Peter Perry	£229,500	No change	£232,943
Peter Bridgewater	N/A	£229,500	£232,943

During the year a review of the fees payable to Non-Executive Directors resulted in fees being frozen at the 2014 levels. Benchmark data provided independently by New Bridge Street ('NBS') reflected the fees as being broadly in line with mid-market levels.

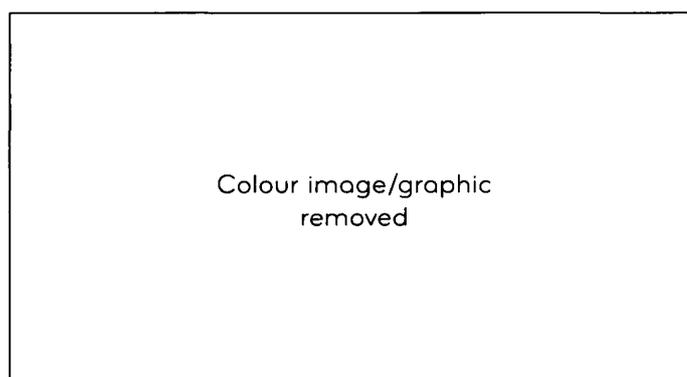
The fees payable for the financial year that commenced on 1 April 2015 are unchanged from 2014:

	2015	2014
Chairman	£212,000	£212,000
Senior Independent Director	£68,700	£68,700
Non-Executive Director	£58,000	£58,000

Annual Variable Pay Scheme (AVPS)

The maximum variable pay that Executive Directors can earn under the AVPS in 2015-16 is unchanged and equates to 100% of base salary. The achievement of variable pay is assessed across five components, as illustrated in figure 3. Specific targets for 2015-16 have not been disclosed as they are considered commercially sensitive but will be disclosed next year. Changes which have been made for 2015-16 are that the number of metrics within the Customer and Compliance measures have been reduced in order to place greater emphasis on the areas of prime importance from the PR14 Business Plan and increase the annual focus within the Scheme. In addition, the Board and Remuneration Committee will choose a small number of measures each year for the annual focus element where the aim is for marked improvement in the year ahead and where the weighting in AVPS is significantly increased. The cost measure has Totex, rather than just operating cost as the metric as this is a more comprehensive and simpler measure of expenditure and will match how company budgets will be set.

Figure 3 Annual Variable Pay Scheme Structure



Long Term Variable Pay Scheme 2015 (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 2020. The awards comprise a cash payment. Under the LTVPS, two types of cash award can be made:

- a Customer Value Award, which combines two financial measures of the increase in the customer reserves and transfers to the customer payment account over the regulatory period. The increase in Customer Reserves (as a measure of financial position) and the transfers to a Customer Payment Account (as a measure of financial flows) calculated separately but added together captures the total value generated for customers (returned and retained) by the company.

The increase in Customer Reserves is less influenced by changes in inflation than the RCV based Customer Reserves measure as a whole which was one of the measures in the 2010 LTVPS. Company performance has a greater influence on the achievement of the customer value measure. Ultimately, this is the most important financial objective for the Executive. This combined measure remains company specific and measures performance against company set targets which are aligned with the 5 year Plan; and

- o Customer Service Award, which is measured by the Company's average ranking in the Ofwat league table for SIM over a rolling three year period. 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 Welsh Water 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 figure 4.

The period over which performance is determined and the potential payment dates over the regulatory period to 31 March 2020 are illustrated in schematic figure 5

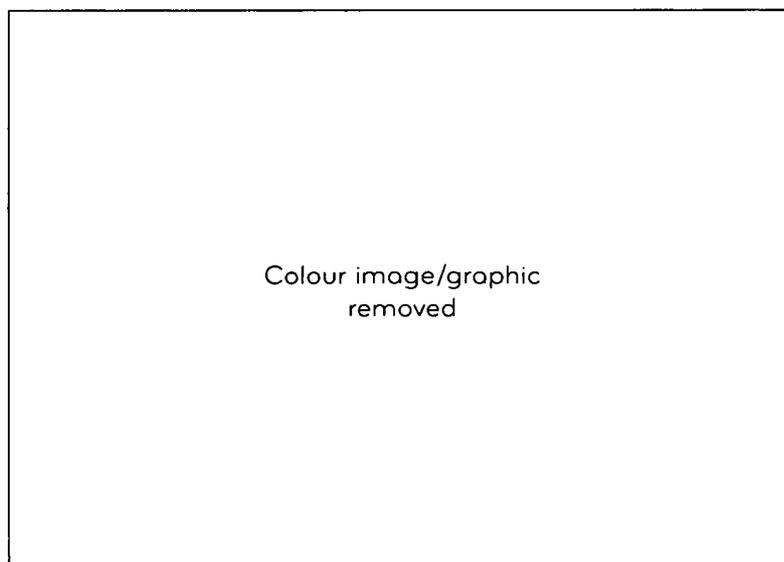
Details of payments made under the LTVPS for 2014-15 are set out in figure 6, 'Payments and benefits earned by Directors in 2014-15'; on page 81.

Figure 4 LTVPS performance measures

	Customer Service	Customer Value ¹
Performance measures	Measured by reference to Ofwat's SIM measure.	Actual customer value created (increase in customer reserves and transfers to customer payment account) at 31 March 2020 (the end of the AMP6 period) compared to targets.
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 and sewerage companies.	This is the strongest financial measure of the total value generated for customers by the Company.
Performance Period	3 Financial Years immediately prior to the Financial Year in which an award is granted	1 April 2015 to 31 March 2020
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.	Maximum 30% award each year if the value created is in line with the targets which are set each year but set 3 years in advance. — 100% of award payable for achieving stretch above target — 66% of award payable for achieving target — 0% for performance at or below threshold — Pro rata award payable for performance between these limits — For the first three performance periods, the Customer Value target for the final year of each period is £68 million, £52 million and £44 million.

- 1 The customer value targets 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) there are any other significant external factors 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 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.

Figure 5 LTVPS performance period



2

What was paid in 2014-15 and link between pay and performance

Payments made to Directors in 2014-15

Figure 6 sets out the Directors' emoluments in respect of the year ended 31 March 2015 in comparison to year ended 31 March 2014.

Figure 6 Payments and benefits earned by Directors in 2014-15 (audited)

	Salary/Fees		Taxable benefits ¹		Other ²		AVP ³		LTVPS ⁴		Total	
	13-14	14-15	13-14	14-15	13-14	14-15	13-14	14-15	13-14	14-15	13-14	14-15
CJ	251,873	280,417	905	860	-	-	128,707	222,651	138,531	186,092	520,016	690,020
PB		133,875		502	-	55,000		106,297				295,674
PP	221,028	229,500	905	860	-	-	118,471	182,223	121,567	159,295	461,971	571,878
NA	287,254	-	905	-	-	-	143,196	-	157,991	-	589,346	-
RA	121,331	212,000									121,331	212,000
JB ⁵	137,750	22,900									137,750	22,900
SP	57,000	58,000									57,000	58,000
JS	57,000	58,000									57,000	58,000
MR	62,250	65,133									62,250	65,133
AW	57,000	58,000									57,000	58,000
JW	57,000	58,000									57,000	58,000
GE	28,500	58,000									28,500	58,000
Total	1,337,986	1,233,825	2,715	2,222		55,000	390,374	511,171	418,089	345,387	2,149,164	2,147,605

	Pension ⁶		Total ⁷	
	13-14	14-15	13-14	14-15
CJ	221,553	283,668	741,569	973,688
PB		14,726		310,400
PP	66,170	30,904	528,141	602,782
NA	120,544	-	709,890	
Total	408,267	329,298	577,831	590,033

	Total ⁷	
	13-14	14-15
CJ	741,569	973,688
PB		310,400
PP	528,141	602,782
NA	709,890	
Non-Exec Director Fees	577,831	590,033
Total	2,557,431	2,476,903

The information in figure 6 has been audited by PwC.

Changes of director: Graham Edwards was appointed a Non-Executive Director on 1 October 2013. Peter Bridgewater commenced in role on 1 September 2014. Nigel Annett stood down from the Board on 1 September 2013 but continued his employment until he retired on 31 March 2014 to ensure a smooth transition to Chris Jones who was promoted to Chief Executive on 1 September 2013. Peter Perry was promoted to Chief Operating Officer on 1 September 2013.

1. Taxable benefits relate to private health cover.
2. 'Other' relates to buyouts for annual bonus and an LTIP award which Peter Bridgewater forfeited on leaving his previous employer. These buyouts were determined as outlined in our policy on page 77. It also includes a travel and accommodation allowance.
3. Please see Determination of AVP Outcome on page 82. Improved performance in 2014-15 against AVP targets resulted in a higher payment (79.4% of salary) compared to 2013-14 (49.9-53.6%).
4. Please see Determination of LTVPS Outcome on page 82. 2013-14 LTVPS disclosures have been restated to reflect a 15% award in respect of the customer service element of the scheme following the publication of SIM results after the approval of Glas Cymru's 2014 Report and Accounts. The final outcome was different to the estimated outcome. The impact was to increase LTVPS awards for Chris Jones, Peter Perry and Nigel Annett by £34,782, £33,156 and £43,089 respectively. Nigel Annett was paid this amount after he had stepped down as Managing Director. For 2014-15, the LTVPS payments include balancing payments for the five year scheme taking account of staged payments already received in previous years. The balancing payments were £51,997 for Chris Jones and £43,465 for Peter Perry.
5. John Bryant undertook the role of Chairman for a six month period from 1 May 2013 while Robert Ayling stood down temporarily. Menno Richards undertook the Senior Independent Director role from 1 May 2013 whilst John Bryant was acting Chairman. John Bryant stepped down at the AGM on 4 July 2014.
6. Pension contribution for Peter Bridgewater is a cash allowance alternative. The pension figures for Chris Jones and Peter Perry have been restated for 2013-14 to allow for the timing of the mid year increase received following their promotions to Chief Executive and Chief Operating Officer. The pension figure for Chris Jones is substantially higher than previous and anticipated future years due to the salary increases arising from his promotion to Chief Executive.
7. The highest-paid Director in 2014-15 was Chris Jones who received £973,688 (2014: £741,569).

Determination of 2014-15 AVPS outcome

For 2014-15, the Remuneration Committee measured performance against each target, which is linked directly to the achievement of the Company's strategy, as follows in the table below. Approved performance in 2014-15 resulted in an AVPS award of 79.4% compared to between 49.9% and 53.6% for the three Executive Directors in 2014-15.

Figure 7 AVPS 2014-15 outcome (audited)

Measure	Metric	Weighting	Summary of targets	Result	% of maximum	% of salary
Customer & Compliance	Performance Scorecard	40%	Target 1,800 points Stretch 2,700 points	1,837	62%	24.7%
Cost	Operating cost efficiency	40%	Threshold £315m Target 304m Stretch £296m	£296m	100%	40%
Strategic	Service reservoirs Combined sewer flooding measures Customer service (number of written complaints, stage 1&2)	10%	Target 99.97% Target 186 Target 3,500	99.98% 145 3,314	72%	7.2%
Personal	PR14 Business Plan, SIM achievement, delivery of Lean operations and maintenance processes at a number of sites, delivery of Opex target	10%	Achievement of personal objectives		75%	7.5%
Total		100%			79.4%	79.4%

Determination of 2014-15 LTVPS outcome (audited)

In determining performance against the Customer Service element, the Remuneration Committee was conscious that for 2014-15 Ofwat will only publish SIM scores for the qualitative element. In order to ensure an equal weighting was applied to all three years of the performance period, the Remuneration Committee estimated the quantitative score based on the average ratio of qualitative to quantitative score in the 2012-13 and 2013-14 years. Adopting this approach Welsh Water's SIM rating is second relative to the SIM rating of the other water and sewerage companies over the three year performance period to 31 March 2015. As a consequence, an award of 22.5% is payable. The maximum potential is 30% of salary.

For the Customer Reserves element of the scheme measured from 1 April 2010 to 31 March 2015, a final payment of 43.9 to 46.9% of salary has been made. This has been based on the Remuneration Committee's determination that Customer Reserves at 31 March 2015 of £1,947 million exceeds the required £100 million in excess of the 2010 Business Plan target required for full vesting. As a result the maximum Customer Reserves award has been earned. The maximum 50% final staged payment has not been made as the final award has been calculated based on the maximum award of 150% of average salary over the five year AMP period less staged payments already paid. A "truing up" calculation has been applied.

In light of this performance in the final year of the measurement period the Remuneration Committee determined that no claw back was required of amounts previously paid via staged payments and the total amount earned under this element.

Pension benefits

For the period 1 April 2014 to 31 March 2015, Chris Jones and Peter Perry were both members of the DCWW Pension Scheme ('the Scheme'), which is a defined benefit arrangement.

Benefits accrue at 1/45th (Chris Jones) or 1/60th (Peter Perry) of Final Pensionable Salary per year of Pensionable Service, subject to a maximum overall pension at normal retirement age of two-thirds of Final Pensionable Salary. The Scheme also provides life cover of four times Pensionable Salary for death in service, a pension payable in the event of retirement due to ill health and a spouse's pension payable on the death of a member. Executive Directors have the benefit of private health cover. Chris Jones and Peter Perry also have the benefit of permanent health insurance cover.

Chris Jones and Peter Perry are Lifetime Allowance and/or Annual Allowance Capped Members of the Scheme and where their Scheme benefits exceed HMRC limits, additional benefits are provided via an Employer Financed Retirement Benefit Scheme (EFRBS). The Company's obligations under this EFRBS will not be funded, however such obligations constitute liabilities of the Company, payable when they are due.

The pension benefits earned by the Directors in the Scheme during the year are shown in figure 8 which has been audited.

Since his employment on 1 September 2014, Peter Bridgewater opted out of the DCWW Group Personal Pension Plan and receives a cash allowance of 11% of salary instead.

Figure 8 The pension benefits earned by the Chief Executive and Chief Operating Officer in the Scheme during the year are shown below (audited)

Year ending 31 March 2014 (re-stated)

	Normal Retirement Age	Accrued pension at 31 March 2013	Capitalised value of accrued pension at 31 March 2013	Revalued capitalised value of accrued pension at 31 March 2013 ¹	Accrued pension at 31 March 2014	Capitalised value of accrued pension at 31 March 2014	Member contributions paid during the year 2014	Pension Input Amount (net of member contributions) 2014 ²
Chris Jones	60	£92,499	£1,849,980	£1,890,680	£106,745	£2,134,902	£22,669	£221,553
Peter Perry	60	£116,220	£2,324,400	£2,375,537	£123,080	£2,461,600	£19,893	£66,170

Year ending 31 March 2015

	Normal Retirement Age	Accrued pension at 31 March 2014	Capitalised value of accrued pension at 31 March 2014	Revalued capitalised value of accrued pension at 31 March 2014 ¹	Accrued pension at 31 March 2015	Capitalised value of accrued pension at 31 March 2015	Member contributions paid during the year 2015	Pension Input Amount (net of member contributions) 2015 ²
Chris Jones	60	£106,745	£2,134,902	£2,192,544	£125,072	£2,501,449	£25,238	£283,668
Peter Perry	60	£123,080	£2,461,600	£2,528,063	£128,981	£2,579,622	£20,655	£30,904

The information in the table above has been audited by PwC.

Benefit Notes:

- Increased by the actual CPI growth figure at the previous September - 2.2% for the 2014 disclosure period and 2.7% for 2015.
- Based on the capitalised value of accrued pension at the year-end, less the revalued capitalised value of accrued pension at the start of the year.
 - The accrued pensions include previous Pensionable Service completed in Hyder Water and United Utilities Pension Schemes.
 - 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 EFRBS.
- In accordance with new reporting regulations, the pension benefits are calculated on a consistent basis with HMRC's "Annual Allowance Method" for determining the taxable value of defined benefit pensions.

Disclosure Notes:

The disclosures for the year ending 31 March 2014 have been re-stated to allow for the timing of mid-year salary increases awarded to Chris Jones and Peter Perry on 1 September 2013. The 31 March 2015 disclosures also reflect the salary increase awarded to Chris Jones on 1 September 2014.

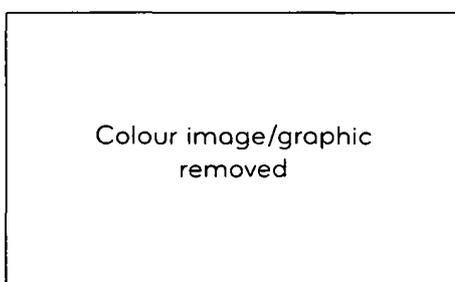
The disclosed Pension Input Amount figures for 2014 (re-stated) and 2015 for Chris Jones are substantially higher than previous and anticipated future years due to the salary increases arising from his promotion to Chief Executive on 1 September 2013.

The disclosed Pension Input Amount figure for 2014 (re-stated) for Peter Perry is not materially affected by the salary increase that he received following his promotion to Chief Operating Officer on 1 September 2013. This is due to the calculation of his Final Pensionable Salary being based on revalued historic salary figures.

No additional benefit is payable for early retirement.

Comparison of overall pay and performance

Figures 9 and 10 show how our pay policy has compared with performance and compares the total pay of our Chief Executive to year on year growth in Customer Reserves (i.e. financial reserves being regulatory capital value less net debt) over the previous five years.

Figure 9 Customer Reserves over 6 years to 31 March 2015**Figure 10** Overall pay and performance

	2011	2012	2013	2014	2015
Total remuneration for Managing Director (NA)	£665,965	£677,770	£590,210	£709,890	-
Total remuneration for Chief Executive (CJ)	n/a	n/a	n/a	£741,569	£973,688
AVPS award (NA)	76.3%	77.6%	60.6%	49.9%	-
AVPS award (CJ)	n/a	n/a	n/a	51.1%	79.4%
LTVPS for AMP 5	25.0%	40.0%	50.0%	78.6%	90.6%

- For 2014 full financial year figures have been provided for Nigel Annett and Chris Jones and do not solely relate to the period as Chief Executive.
- The total remuneration figures for Nigel Annett have been recalculated and restated from 2010 onwards taking into account the new reporting regulations for calculating pension benefits as described above in the Pension Benefits section on page 82-83. The new methodology is very sensitive to inflation.
- The total remuneration figure for Chris Jones has been restated for 2014 due to the pension input amount being restated (please see figure 6 on page 81). The pension figure for Chris Jones is substantially higher than previous and anticipated future years due to the salary increases arising from his promotion to Chief Executive.
- The LTVPS percentages show the % of the maximum potential rather than the % of salary awarded.

3

Relative importance of spend on pay

It is important that the Remuneration Committee considers the cost of remuneration in relation to other factors such as company performance, figure 11 sets out the change in total expenditure, total employee remuneration costs and Customer Reserves in 2015 compared to 2014.

Figure 11 Relative importance of spend on pay

	2014	2015	Change	
	£m	£m	£m	%
Total expenditure¹	819.6	833.9	18.3	2.2%
Employee remuneration costs	113.7	122.6	8.9	7.8%
Customer Reserves²	1,648	1,947	299	18.1%
Executive Director remuneration costs³	2.0	1.9	(0.1)	(4.7%)

- Operational expenditure, capital expenditure and financing costs.
- Regulatory capital value less net debt. Customer Reserves metric included to enable comparisons with shareholder owned companies.
- The 2014 value has been restated from £1,737,847 to £1,979,600 following the award of further LTVPS payments and the recalculation of pension values subsequent to the publication of Glas Cymru's 2014 Report and Accounts.

Figure 12 Percentage change in CEO remuneration compared with other employees

	Chief Executive % change from 2013-14	Employees % change from 2013-14
Salary	5%	4%
Benefits	0%	0%
Annual Variable Pay	73%	33%

Employees Salary % Change includes increases awarded for annual pay award and career progression

How pay is determined**Remuneration Committee**

The Remuneration Committee is chaired by James Strachan. In 2014-15, the other members of the Committee were Robert Ayling, Menna Richards*, Anna Walker and John Warren. The Board considers that all the members of the Remuneration 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 Chief Executive and the Director of Human Resources attend meetings of the Remuneration Committee by invitation (except where their own remuneration is discussed) and the Company Secretary acts as secretary to the Remuneration Committee. The Remuneration Committee was convened on four occasions in 2014-15.

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

- 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
- to determine variable pay arrangements that encourage and recognise good performance and reward individuals in a fair and responsible manner for their contribution to the success of the Company.

In 2014-15, the Remuneration Committee received independent advice from New Bridge Street** (NBS), a trading name of Aon Hewitt Limited (an Aon plc company). NBS is a signatory to the Remuneration Consultants Group Code of Conduct and any advice given is governed by the Code. The Group has a long standing relationship with NBS.

In 2014-15, NBS advised on market best practice in the design of incentive performance arrangements, the benchmarking of Directors' and executive team remuneration and fees and provided general remuneration advice to the Remuneration Committee. During 2014-15, NBS received fees amounting to £44,841 in relation to advice provided to the Remuneration Committee and did not provide any other advice to the Company. The Remuneration Committee also sought advice and information from Quantum Actuarial LLP (pension data).

The Remuneration Committee has concluded that there are no conflicts of interest in relation to these organisations supporting both the Remuneration Committee and the Company in the implementation of its decisions.

During 2014-15, the activities of the Remuneration Committee included: approving the 2014 Remuneration Report; assessing performance achieved against the conditions attached to the 2013-14 AVPS and LTVPS and agreeing awards to be made to participants; reviewing salaries and AVPS for the broader executive and leadership teams; conducting a review of the incentive plan structure in readiness for AMP6 consideration of remuneration and pension trends and best practice; determining the salary of the Executive Directors and the Chairman's fee for 2014-15; and determining the total remuneration for the Managing Director and Finance Director of DCCS Ltd.

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

* From October 2014

** NBS has no other connection to the Group



Directors' report

This Report should be read in conjunction with the Strategic Review, Corporate Governance Report and the Audit Committee Report, which collectively constitute the Directors' Report. For further information, see Contents List on pages 2-3.

The Directors consider that the Annual Report and Accounts (consolidated financial statements of Glas Cymru), taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the company's performance, business model and strategy. In order to arrive at this position, the Board were assisted in the following ways:

- the Annual Report was drafted by senior management and overall co-ordination overseen by the Company Secretary, Finance Director and Director of Communications to ensure consistency
- reviews of drafts were undertaken by Members of the Executive team and a verification process involving the Reporter and the company's auditors, has been undertaken
- the final draft was reviewed by the Audit Committee prior to review and approval by the Board, and submission to Members.

The Board has prepared a Strategic Report which provides a summary of the development and performance of the company's business in the year ended 31 March 2015 and covers likely future developments.

Glas Cymru Cyfyngedig (Company number 03975719) is a company limited by guarantee incorporated in England and Wales. Our registered office is Pentwyn Road, Nelson, CF46 6LY.

More information on Principal Activities can be found on page 13.

Directors

The names and brief biographical details of the Directors are given on pages 67 and 68 of this document.

All Directors served throughout the year ended 31 March 2015, except John Bryont who stepped down at the 2014 AGM in July 2014. All Directors will stand for re-election at the 2015 AGM. This will meet the requirement under our Articles of Association for one third of Directors to retire by rotation. 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 2015 AGM which will take place on Friday 3 July 2015.

The Non-Executive Directors' letters of appointment are made available for inspection on request to the Company Secretary.

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 2015 contained in this Annual Report. A resolution will be proposed at the 2015 AGM to approve the 2015 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 2015, the Group had 2,985 employees. Our success is dependent upon our having highly committed and motivated people and in other sections of this Annual Report (page 52) we describe how we are developing our people for the challenges of operating our business in the future.

We do not discriminate against applicants or employees on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation ("protected characteristics" in accordance with the Equality Act 2010) or any other personal characteristic. If an employee is disabled or becomes disabled, we consider any reasonable adjustments that would help overcome or minimise the difficulty. It is the policy of the Group that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability. The Group is committed to respecting human rights in respect of colleagues and customers and plans to monitor its progress in this regard.

Financial Performance

Glas Cymru Cyfyngedig is the holding company for the Glas Cymru Group and parent of the operational company Dŵr Cymru Cyfyngedig. Dŵr Cymru has delivered a strong financial performance during the year to 31 March 2015; gearing has fallen to 60% (2014: 63%) and the Company has retained its sector-leading credit ratings.

While the Group's unique ownership structure allows it to be run for customer benefit, as opposed to shareholder profit, we set ourselves challenging targets to ensure we continue to improve the efficiency of our operations. Since 2001, we have reduced our regulated operating costs by 20% in real (pre inflation) terms and are planning a further reduction in controllable costs of around 20% by 2020.

Revenue

Glas Cymru's turnover in the year to 31 March 2015 was £753 million (2014: £737 million), primarily reflecting the regulated average price increase of 2.05%. Additional revenue from new customers has been offset by household customers switching to metered charging, which usually results in a lower water bill. The number of customers signed up to our sector-leading range of customer assistance tariffs has continued to increase. As at 31 March 2015 some 50,000 were benefiting from one of these tariffs or our Customer Assistance Fund - which support those who have difficulty paying their bills - at an annual cost to the Company of some £4 million.

Operational items

Glas Cymru incurred total operational costs (excluding infrastructure renewal expenditure on maintaining our underground pipe network, depreciation and exceptional items) of £295 million (2014: £296 million), a number of specific cost increases (power costs, wastewater compliance costs, private sewers expenditure) have been offset by driving efficiency savings from streamlining recruitment, the insourcing of operational contracts, reductions in insurance charges and business rates rebates.

All water and sewerage companies use a lot of power, particularly for water treatment and pumping processes. The undulating topography across Wales makes this a particular challenge for us. Power costs during 2014-15 rose to £44 million (2014: £43 million) principally as a consequence of electricity price increases. There remains significant uncertainty over future energy costs, and we have forward purchased a proportion of the estimated power requirements of the business for the five years to March 2020.

Customer debt recovery remained a high priority for Dŵr Cymru. In a difficult economic environment, in which water companies have no sanction to disconnect supplies to non-paying domestic customers, cash collection has continued to be challenging. The bad debt charge for the year of £29 million (2014: £28 million) represents 3.9% of annual turnover (2014: 3.9%) and will be an area of increased focus for us over the coming year.

Exceptional items

As part of our drive to cut controllable operating costs by around 20% over the next five years, a redundancy and severance programme has been announced which will reduce the number of people employed in the business by around 360 colleagues. The estimated £18 million cost of this commitment has been provided for during the year.

Financing costs

Net interest payable of £145 million (excluding accounting losses on derivatives noted below) was £10 million lower than the previous year. This is the result of lower RPI inflation on index-linked bonds (£10 million) and an £8 million accounting profit on termination of finance leases, offset by an £8 million charge to terminate inflation linked interest swaps which were no longer required.

Glas Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt and, while these are effective commercial hedges, they do not qualify for hedge accounting under IAS 39. Changes in market values create volatility in the income

statement and fair value losses in 2014-15 amounted to £157 million (2014: gains of £94 million). There is, however, no impact on cash flows: the company intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such losses will revert to zero.

Underlying Profit

The underlying profit before tax was £77 million (2014: £50 million). The consolidated income statement shows a loss before taxation of £100 million (2014: profit of £145 million) which takes into account the fair value and one-off finance movements as well as exceptional items as discussed above.

Pension funding

The statement of comprehensive income reports defined benefit pension scheme actuarial losses of £32 million (2014: gains of £25 million) and the balance sheet liability as at 31 March 2015 was £33 million (2014: £3 million). This valuation is on an IAS 19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme, as at 31 March 2013, projected a small deficit recoverable by payments of £1 million per annum until 2018. Plans are in place to mitigate exposure to any significant additional future liabilities via the closure of most sections of the scheme with effect from 1 April 2017.

Net liabilities

The consolidated balance sheet shows net liabilities of £6 million at 31 March 2015 (2014: net assets of £100 million). Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £416 million (2014: £365 million).

Going Concern

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2015 have been prepared on a going concern basis.

* More information on Key Performance Indicators can be found on page 12

Capital investment

Glas Cymru's strong financial position has been built up over the last 14 years, and provides a stable base from which it can respond positively to the challenges of economic uncertainty and drive forward its continuing large capital programme.

Glas Cymru works with an alliance of partners to deliver the capital investment programme at the best value for money for customers. Total capital expenditure by Welsh Water during the year (including infrastructure renewals expenditure) was £379 million (2014: £354 million) and we invested around £1.5 billion over the five year period from 2010 to 2015. This investment programme has brought sustained improvements in customer service, drinking water quality and the environment. The Group plans to invest a further £1.7 billion over the course of the next five years, our largest ever investment programme.

Credit ratings and interest rate management

Glas Cymru has the strongest credit ratings in the water sector, reflecting the Company's high level of creditworthiness. The ratings of the Company's Class A and B debt at 31 March 2015 were A/A3/A from Standard & Poor's (S&P), Moody's and Fitch Ratings.

As at 31 March 2015, approximately 65% of gross debt was index-linked via bonds and derivatives (2014: 65%), with the remainder at fixed interest rates. The expected maturity of the outstanding fixed-rate and index-linked bonds ranges from 2021 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

Gearing policy

Glas Cymru's gearing policy is to target gearing at or around 60% and interest cover ratios commensurate with maintaining our sector leading "A" grade credit ratings. This should help us to maintain low risk profile giving the Company access to low cost financing throughout AMP6 and beyond.

Liquidity and financial reserves

Glas Cymru aims to offer a secure, low risk investment to investors. By building and maintaining a strong financial position, we intend to keep our borrowing costs low, enabling us to finance future investment efficiently.

On Glas Cymru's acquisition of Welsh Water in May 2001, gearing (net debt/Regulatory Capital Value) stood at 93%. Since then, the financial position has improved steadily. Gearing to RCV has fallen to 60% by 31 March 2015 (2014: 63%) and 'financial reserves' (RCV less net debt) were £1.9 billion.

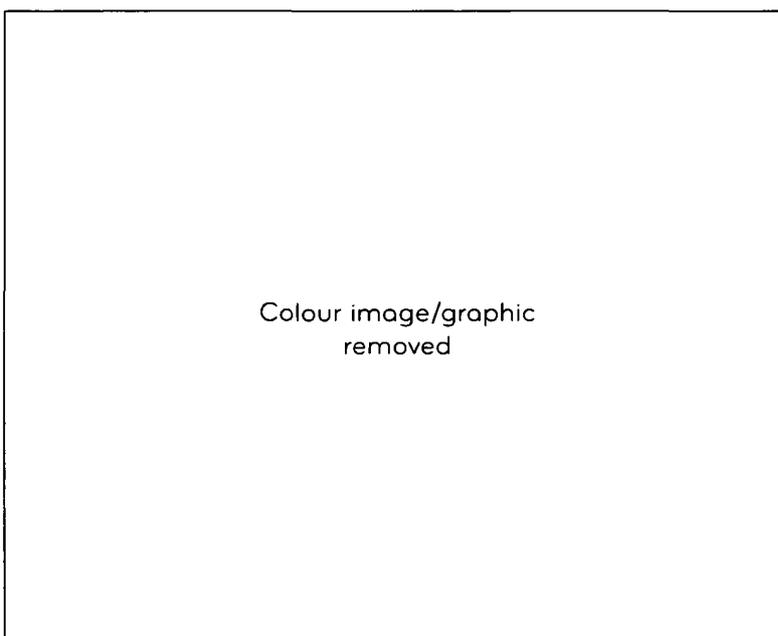
As at 31 March 2015, the Company had available total liquidity of £338 million, including cash balances of £148 million. With funding already in place for the early years of AMP6, we will seek to raise additional finance of around £500 million over the course of the AMP6 period to March 2020.

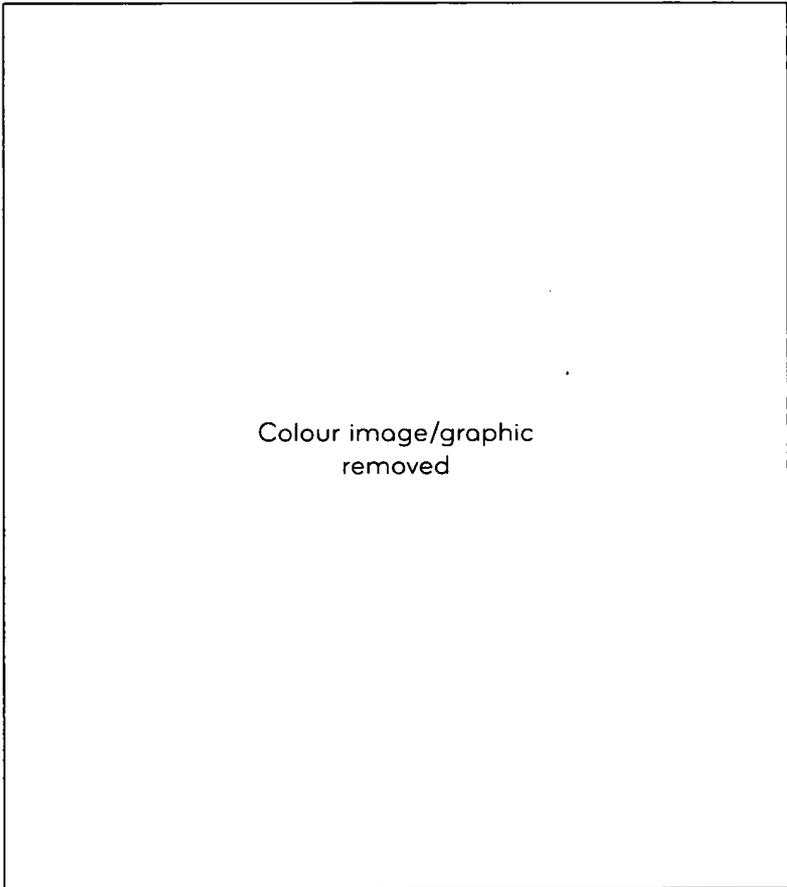
WaterAid

As befits our operating model, we do not engage in corporate sponsorship but we continue to provide support to WaterAid - our nominated charity that transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities. With the support of many employee volunteers, partners and suppliers across the business - some of whom have visited countries such as Uganda that benefit from the charity's fundraising activities - our colleagues have now raised over £1 million for WaterAid.



Welsh Water's peripatetic teacher, Mary Watkins, with schoolchildren from Masindi, Western Uganda.





Local residents in Mold enjoying the free worm drinks provided by Welsh Water before the town's Christmas lights were switched on. This was to thank the community for bearing with us whilst we invested £900,000 to upgrade the water mains in the town to ensure customers there continue to receive a first class water supply.

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Being a Good Neighbour

We know that our activities, including maintaining and repairing our assets and networks, can cause disturbances or disruption to local communities. We plan every scheme thoroughly to try and ensure that this is minimised and this includes working with our construction partners, local authorities, highways agency, households and businesses to find the most agreeable solution.

Where our activities can potentially have a negative economic impact (for example roadwork's preventing or reducing footfall to retailers), we also look at how we can offer support through compensatory measures.

We continue to be determined to play our part in a sustainable and more prosperous Wales through a socially and environmentally responsible approach to our day-to-day activities, and by helping the communities we serve.

Corporate Social Responsibility

As one of the biggest companies in Wales with a 3,000 strong workforce and a major, multi-billion pound investment programme, the way we act as a business has a profound influence on the social, economic and environmental wellbeing of Wales and the English regions we serve.

We are therefore pleased that acting in an environmentally sustainable, economically beneficial and socially responsible manner has been at the heart of our activities over the past 12 months.

Supporting education

We know we have a part to play in helping our future customers understand how they can help and protect the environment. Indeed, investing in education and engaging with the communities we serve is vital to achieving our vision. This is why we have four education centres (Elan Valley near Rhayader, Cilfynydd near Pontypridd, Cog Moors near Dinas Powys and Alwen in the Denbighshire moors), visited by over 12,000 children every year. They offer a range of fun, practical activities and programmes so children and families can experience the world of water at first hand.

Due to the success of our centres, we now implement an outreach programme where our teachers regularly visit primary and secondary schools to deliver workshops on the behavioural change campaigns we undertake involving water efficiency (Love Dŵr) and pollution (Let's Stop the Block). Around 45,000 pupils a year benefit from this programme.

Working with others

To help us provide our services and safeguard the environment, we have also continued to collaborate with key partners and community organisations. This includes:

- working with Natural Resources Wales, Work Cymru, Snowdonia National Park Authority and the National Trust to restore peatland ecosystems in uplands areas (Mynydd Hiraethog and the Migneint on the North Wales Moors) to help improve the water quality of the local reservoir
- helping develop the Clear Streams Swansea project with Swansea Environmental Forum and Wildlife Trust to coordinate 40 community events to raise awareness of the local water environment and improve water quality in the area
- collaborating in the 'Loving our Lake' project run by Snowdonia-Active aimed at reducing the phosphates going into Llyn Padarn as the lake was suffering from nutrient induced algal blooms. This is being achieved through changing behaviours by way of school education programmes, guidance materials, social media and community activities.

Occupational Health and Safety

We are committed to high standards of occupational health and safety and over the period 2014-15 our like-for-like performance improved with fewer RIDDOR accidents. More information on our health and safety strategy and performance is provided in our 2015 Occupational Health and Safety Report which is available on our website glas.cymru.com.

Innovation

Our Innovation portfolio of work continues to focus on two key areas of work. Firstly the wholesale businesses key priorities as detailed in our 25 year Operational Visions, and secondly to assist the business and our regulators to make better evidence based decisions. This work is supported by our Independent Environmental Advisory Panel (made up of regulators, academics and environmental stakeholders) who continue to advise the business on all of the science and research we undertake.

The Panel continues to be instrumental in assisting us with the design of many of our research proposals and supports the business through offering advice. The panel has also assisted us both to tap into the expertise and resources available in such bodies and build our relationships with them, so as to leverage funding and expertise into our science and research work. More generally, we have driven elements of the national research and development agenda by participation in water industry research initiatives, most notably through membership of UK Water Industry Research Limited (UKWIR) which manages and coordinates the research interests of UK water companies.

We have also engaged with a wide range of stakeholders through a number of workshops, and our 2014 Innovation conference.

Political Donations

It is Board policy not to make donations to political parties or to incur political expenditure and during 2014-15 no donations or payments were made which are required to be disclosed under section 366 of the Companies Act 2006.

Greenhouse gases

The release of greenhouse gases (GHG) has an impact on climate change which, either directly or indirectly, presents considerable risks both to the business and the environment. The Group seeks to reduce its releases of greenhouse gases where possible and currently measures this through the calculation of our operational carbon emissions.

These emissions are dominated by energy use from grid supplied energy accounting for around 85% of the total. In 2014-15 the carbon content of grid supplied electricity rose by 11% resulting in our carbon emission rising to 257 ktCO₂e (243 in 2013-14). If calculated on a like-for-like basis to last year the emissions would have fallen to 233 ktCO₂e. Almost all of these emissions come from the operational businesses. However, as a result of the large rise in carbon content in electricity obtained from the Grid, we failed to meet the target of an overall reduction in emissions by 25% from 2007 levels (which would have entailed meeting a target of 230 ktCO₂e). Our entire offices and transport fleet account for less than 6% of the annual total emissions between them.

Underlining our commitment to sustainable operations and reduction in our climate change related impact, our renewable energy production rose to 60GWh (43 in GWh 2013-14) from anaerobic digestion (43 GWh), hydro (16 GWh) and solar (1 GWh). Additional generation coming online in 2014-15 included hydro turbines at Cowlyd Upper and Dalbenmaen, four new solar arrays and the part year effect of the ex-Infinis hydro assets.

* More information on Future Developments can be found on pages 20-21

Access and Recreation

We are the custodian of a national asset in Wales - some 40,000 hectares of scenic land that is rich in scenery and biodiversity. This land also offers significant opportunity for public recreation with around a million visitors a year visiting one of our 17 major reservoir sites where we provide a range of different sporting, recreational and leisure facilities.

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 2011.

Regulatory Accounts (Dŵr Cymru)

Condition F of the Instrument of Appointment under which Welsh Water operates requires that we publish additional financial information as an 'appointed business'. A copy of this information is published on our website.

Events after the Financial Year-End

There have been no post balance sheet events.

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**Elan Valley**

A 72 square mile reservoir estate with historic landscapes and thriving wildlife where visitors can enjoy activities and events such as family wildlife watches, bat walks, craft fairs and treasure hunts.

Annual General Meeting

The 2015 AGM will be held on Friday 3 July 2015 at the Metropole Hotel, Llandrindod Wells. 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 2015 and approval of the Remuneration Policy, the re-election of all Directors, a resolution to authorise the Company to make donations to EU political organisations and to 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 2015 AGM sent to the Members of Glas Cymru with this report.

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 fair, balanced and understandable 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 of 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.

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

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 statements may differ from legislation in other jurisdictions.

Auditors

PricewaterhouseCoopers LLP acted as the auditors to Glas Cymru for the accounts for the year ended 31 March 2015. 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 2015 AGM.

By order of the Board



Nicola Williams
General Counsel
and Company Secretary
5 June 2015

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Independent auditors' report to the Members of Glas Cymru Cyfyngedig

Report on the financial statements

Our opinion

In our opinion:

- Glas Cymru Cyfyngedig's Group financial statements and parent company financial statements (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 2015 and of the Group's loss and the Group's and the parent company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

Glas Cymru Cyfyngedig's financial statements comprise:

- the consolidated and parent company balance sheets as at 31 March 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated and parent company cash flow statements for the year then ended;
- the consolidated statement of changes in reserves for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and 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.

Our audit approach

Overview

Materiality

- Overall Group materiality: £10 million, which represents 2.5% of Earnings Before Interest, Taxation, Depreciation, Amortisation and Exceptional items ('EBITDA').

Audit scope

- We performed full scope audit procedures on all 7 components of the Group. We also audited the Group's acquisition accounting of Hydro 1 Limited on 19 December 2014.

Areas of focus

- Unbilled revenue recognition, including the migration of data into the new customer billing system.
- RapidXtra system implementation.
- Provision for impairment of trade receivables.
- Valuation of pension scheme obligations.
- Allocation of capital costs.
- Valuation of derivative financial instruments.
- Acquisition of Hydro 1 Limited.
- Provision for restructuring exercise.
- IT control environment.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Also, in order to provide an opinion on the financial statements as a whole, where appropriate for each of the areas of focus below, we evaluated the design and tested the operating effectiveness of key internal controls over financial reporting, including the operation of IT systems from which the financial information is generated. In January 2015, the Group's new customer billing system, RapidXtra, was implemented, fully replacing the previous system. Therefore, as discussed further below, we applied additional focus to the system implementation, including additional testing of system generated reports upon which we relied as part of our audit of revenue and trade receivables.

Area of focus	How our audit addressed the area of focus
<p><i>Unbilled revenue recognition, including the migration of data into the new customer billing system</i> Refer to page 70 of the Corporate Governance report and note 1 of the Group financial statements.</p> <p>Whilst we assessed the risk and performed work across all revenue streams, the area subject to the greatest level of estimation is the 'measured income accrual', being the accrual for unbilled metered customer accounts.</p> <p>This is, therefore, the area where we assessed there to be the highest likelihood of a material misstatement in revenue.</p> <p>The measured income accrual is generated by an automated system calculation performed by taking the average of recent actual consumption data available and multiplying that by the number of days between the last actual reading and the year end and the applicable charge.</p> <p>The accuracy of the calculation is, therefore, dependent on:</p> <ul style="list-style-type: none"> • the reliability and timing of the meter readings upon which the calculation is based; • the effective interface of data from meters to the underlying customer billing system; and • the accuracy of the automated calculation. <p>During the year, the Group introduced a new customer billing system, RapidXtra, which represents an additional level of risk and complexity to the calculation of the measured income accrual because the calculation is based on data extracted from RapidXtra, although the actual historical usage data on which the calculation is based was originally generated by the predecessor customer billing system. Our detailed testing on the transfer of data to RapidXtra is discussed within the specific area of focus below.</p>	<p>We confirmed, through inspection and observation, the processes and controls in place to ensure that accurate and complete meter readings were captured and that meters recognised existed.</p> <p>In order to obtain evidence over the underlying data used to generate the measured income accrual, we:</p> <ul style="list-style-type: none"> • performed IT controls testing on the new customer billing system (as discussed further below); and • tested the migration of historical meter data from the previous to the new billing system, which has been used to calculate the accrual. This included comparing the total number of items in each data set transferred in order to confirm that all data was included and did not identify any issues. <p>We tested the measured income accrual by reperforming the calculation of a sample of individual meter accruals, confirming meter readings used in the calculations to RapidXtra and the charge used to the Group's published Scheme of Charges. Our testing identified a small error, which, when projected across the untested population suggested an immaterial error that has not been adjusted by the directors.</p> <p>We also performed testing on the accrual listing to obtain evidence that all meters included existed and that all meters had been included.</p> <p>We also used data from the Group's operational data (i.e. the number of meters and average consumption data) to develop our own independent expectation of the total measured income for the year, which we compared to the Group's reported income for the year; the difference was immaterial.</p>

Area of focus
How our audit addressed the area of focus

RapidXtra system implementation

Refer to page 70 of the Corporate Governance report.

Project Newid has been ongoing over the past 3 years, relating to the Group's introduction of a new customer billing system, RapidXtra. This implementation involved the migration of historical customer data from the previous billing system into RapidXtra, which has led to a risk of inaccurate data being carried forward within the new system.

The implementation also introduced heightened risk as controls and processes that have been established and embedded over a number of years were updated and migrated into the new environment. Both the increased risk of breakdown in internal financial controls during the transition and the increased risk of inaccurate migration of financial data increased the risk of material misstatements in the Group financial statements.

We understood and evaluated the Group's project governance and data migration plan, tested relevant controls over the migration and go-live processes, and found these to have been sufficient to enable us to rely on them for the purposes of our audit. We understood, evaluated and tested the IT controls within the new environment. Our testing did not identify any matters that affected our audit, although we did identify and report to the audit committee areas where processes and controls on which we did not rely for the purposes of our audit could be improved.

As noted above, we performed testing on the migration of data between billing systems. No interface exists between RapidXtra and the Group's SAP general ledger. We therefore evaluated and tested the controls and processes in place to manually record customer data (trade receivables and revenue) in SAP, which is captured on a monthly basis at an overall level. We found these controls to be sufficiently reliable for the purposes of our audit.

We also tested the year end trade receivables reconciliations between RapidXtra and SAP, obtaining evidence over their accuracy, and did not identify any unusual or long-standing reconciling items.

Provision for impairment of trade receivables

Refer to page 71 of the Corporate Governance report and notes 1 and 11 of the Group financial statements.

The past few years have seen a challenging economic environment, which has put pressure on the Group's cash collection from customers.

The Group's assessment of the provision required against trade receivables used historical cash collections experience, as a basis to develop a judgemental estimate of the proportion of year end receivables that the Group expects to collect going forward, adjusting for any external factors that are expected to have an impact.

Given the significance of the Group's overdue trade receivables balances (£150 million as at 31 March 2015) within the financial statements, relatively small changes in underlying assumptions applied to the provision's calculation can have a significant impact on the provision requirement.

The implementation of the new customer billing system in the year again adds an additional layer of risk.

We tested the underlying system reports used by the Group to provide the data to support the provision calculations by testing a sample of items to supporting documentation. We also performed IT controls testing on the new customer billing system, as discussed above. Our testing indicated that the reports generated by the RapidXtra system were sufficiently reliable to form a basis for the calculation of the impairment of trade receivables.

Having obtained this evidence over the underlying data used in the calculation, we then used our experience and professional scepticism to challenge the judgements behind the forecast cash collection rates used to determine the balances that are potentially irrecoverable. In order to support these challenges, we considered the following factors:

- historical trends from prior years;
- the general economic environment, both current and forecast – particularly in Wales; and
- the likely impact of the company's initiatives to improve future cash collection rates, including the implementation of the new customer billing system.

In order to assess the Group's competency in developing the estimate, we performed a 'look back' test, considering the accuracy of the prior year provision with the availability of actual collection rates for the year. With the benefit of hindsight, the prior year provision was materially accurate.

We also performed sensitivity analysis on a number of the assumptions made, in particular the future cash collection rates, in order to identify the significance of each assumption to the overall valuation of the provision. Our testing identified that there is no single assumption that is significant to the determination of the provision, with a relatively high level of inaccuracy required to generate a material misstatement.

We found that, consistent with prior years, the level of provision appears to be towards the prudent end of our expected range. However, in light of the continuing economic uncertainty – particularly in Wales – we considered that the level of provision was reasonable.

Area of focus	How our audit addressed the area of focus
<p><i>Valuation of pension scheme obligations</i> Refer to page 71 of the Corporate Governance Report and note 21 in the Group financial statements</p> <p>The Group operates a defined benefit pension scheme. Although it was closed to new entrants a number of years ago, the Group continues to have a material liability in respect of its members who either remain in employment and continue to make contributions or those in retirement who draw their pension.</p> <p>The pension scheme liability shown within the consolidated balance sheet is the net of significant investment assets and scheme obligations.</p> <p>The valuation of the scheme's assets is generally straight forward as the majority of investments are either held in publicly quoted funds, or in cash investments held in banks.</p> <p>The pension scheme obligations are determined based on a number of actuarial assumptions and calculations, which are subject to significant judgement and estimate. Changes in these assumptions can have a material impact on the quantum of obligations recognised.</p>	<p>We considered the competency and qualifications of the actuary engaged by the Group to perform the valuation and found them to have a relevant UK qualification and be a member of a UK professional body. We tested the accuracy of the data provided to them by the Group and used in their valuation, in particular the contributions paid by the Group and the scheme members.</p> <p>For each of the key assumptions used in valuing the scheme liabilities, including the discount rate and inflation rate, using our actuarial expertise, we compared the estimate used by the actuary to our own independently formed expectation. We also considered the consistency of these assumptions with prior years and benchmarked the Group against other companies in the utilities sector and other large companies in the UK, using publicly available information. This testing indicated that the assumptions used by the actuary were consistent with the prior year and, although slightly more optimistic than the comparator Group as a whole, within an acceptable range.</p>
<p><i>Allocation of capital costs</i> Refer to page 71 of the Corporate Governance Report and notes 3, 8 and 9 in the Group financial statements</p> <p>The Group, as a water and sewerage operator, is required to invest significant amounts in the maintenance and enhancement of its network, known as its capital programme.</p> <p>Expenditure on the capital programme is either capitalised as a capital addition, or expensed within the income statement. Given the complexity of the capital programme, the classification of some of the expenditure is open to judgement.</p> <p>Whilst we have considered all areas of capitalisation, we have identified that the following areas represent the key judgements:</p> <ul style="list-style-type: none"> • infrastructure renewals expenditure; • intangible asset additions; and • support costs capitalised. <p>As the Group is assessed by its regulator, Ofwat, on its capital investment and its cost efficiency, there is an incentive for the Group to manipulate cost allocation, which increases the significance of the judgements to the financial statements.</p> <p>Infrastructure renewals expenditure ('IRE') is a regulatory defined area of expenditure relating to replacing infrastructure such as pipework that does not enhance the network sufficiently so does not meet the recognition criteria of IAS 16 'Property, plant and equipment'. The degree to which costs meet or do not meet these criteria is an area of judgement.</p> <p>Intangible asset additions in the year were significant, primarily as a result of the new customer billing system implementation, which has involved a high number of individuals from across the business and the use of internal facilities. The total investment in this project has been £34 million, of which £17 million was incurred in the year.</p> <p>Given that the Group's capital programme is such an integral part of its activities, a significant portion of the cost of internal support functions is directly attributable to the delivery of the programme and, as such, is included within the cost of fixed assets capitalised. The definition of 'directly attributable' requires judgement, which therefore introduces the risk of costs being inappropriately capitalised.</p>	<p>We tested a sample of property, plant and equipment additions in the year to supporting documentation and confirmed that the amounts capitalised were consistent with the recognition criteria of IAS 16.</p> <p>We tested the classification of expenditure between IRE and capital, challenging the judgements applied, with reference to IAS 16. We determined that the classification of costs in this area was reasonable.</p> <p>We also tested to supporting documentation a sample of intangible asset additions and confirmed that the amounts capitalised were consistent with the recognition criteria of IAS 38, 'Intangible assets'. In doing so, we focussed particularly on the amounts capitalised in respect of the new customer billing system implementation, considering the level of investment against the directors' project plan in order to obtain evidence that no significant inefficiencies within the project had been inappropriately capitalised.</p> <p>We also, applying professional scepticism, challenged the level of other internal costs capitalised across both tangible and intangible projects. We determined that, although there is a degree of judgement within these costs, the level of costs capitalised was consistent with prior years and with our expectations.</p>

Area of focus
How our audit addressed the area of focus

Valuation of derivative financial instruments

Refer to page 71 of the Corporate Governance Report and notes 5 and 15 of the Group financial statements.

The Group has entered into a number of complex derivative financial instruments designed to manage its exposure to financial market risks.

As many of these instruments are associated with the Group's bonds in issue, which go out as far as 2057, the contract periods are long-term in nature. Under IFRS, derivative financial instruments such as those held by the Group are held at fair value at the year end, with the movement recognised in the income statement. Determining the fair value of these long term, complex instruments and, hence, the amount recognised in the income statement, requires judgement.

Due to a combination of the magnitude of the notional amounts underlying the instruments and their long duration, their fair value is a material net liability in the context of the balance sheet and is highly sensitive to small changes in underlying assumptions, such as long term inflation forecasts.

We obtained the contracts supporting the derivative financial instruments and performed our own independent valuations of them as at the year end. We compared these valuations to those performed separately by both the Group and the contract counterparties (financial institutions), finding no material differences.

We confirmed all of the counterparties' valuations provided to the Group directly with the counterparties providing evidence that the contracts in place were consistent with the listing provided to us by the Group.

The procedures above relate to the year end assets and liabilities recognised in the balance sheet. We also confirmed that the movement in these balances is equal to the amount recognised within the income statement as fair value losses on derivative financial instruments.

During the year, the Group terminated early three of the contracts in place, paying cash consideration that was recognised in the income statement within finance costs. All of these contracts were in a liability position in the comparative balance sheet and we confirmed that these liabilities no longer appear at 31 March 2015. We agreed the termination of the contracts to supporting documentation.

We identified immaterial differences between our independent valuations of the instruments and those initially recorded in the financial statements, which the directors subsequently updated within the financial statements. These differences wholly related to differences in the assumptions applied by the Group and the counterparties in deriving valuations, and are inevitable to some extent, because of the long term nature of the judgements involved.

Acquisition of Hydro 1 Limited

Refer to note 10 of the Group financial statements.

During the year, the Group acquired a new subsidiary, Hydro 1 Limited, which owns hydro assets in a number of locations within the Group's operating area.

As the Group is restricted by its agreements with long term creditors from diversification away from its core activities as a water and sewerage company, it rarely acquires new businesses.

We also noted that the entity acquired was committed to long term contracts generating power revenues at below current market rates. These contracts, and any other assets or liabilities acquired, are required to be fair valued upon acquisition which involves judgement.

As the value of this investment is material to the financial statements, is not in line with the Group's normal course of business and involves a degree of complexity, we considered the transactions associated with the acquisition to require additional audit focus.

We obtained the agreements associated with the acquisition and confirmed that the terms of the transactions were consistent with those reflected in the financial statements.

We challenged the Group on the fair value assessment performed on the assets and liabilities acquired, developing our own independent expectation for their valuation, which we compared to the Group's own calculations. By obtaining supporting documentation, we were able to determine that the Group's calculations were appropriate.

We also checked that the acquisition accounting transactions were accurately reflected in the Group financial statements and found that they were.

Area of focus	How our audit addressed the area of focus
<p>Provision for restructuring exercise Refer to page 71 of the Corporate Governance Report and notes 4 and 17 of the Group financial statements</p> <p>During the year, the Group announced its plans to reduce headcount over the next regulatory period (2015 to 2020) by up to 360 individuals in order to meet its efficiency targets over this period committed to as part of the Ofwat price review process concluded in December 2014. As a result, the Group has recognised a provision in the Balance Sheet of £17.7 million, with the corresponding charge recognised as an exceptional item in the Income Statement.</p> <p>Under IAS 37 'Provisions, contingent liabilities and contingent assets', the Group should recognise a provision for the costs associated with this restructuring exercise to the extent that there was a 'present obligation as a result of past events' at the year end date.</p> <p>Given the magnitude of this provision and the judgement involved in its calculation, additional focus was applied to its testing so as to ensure that the requirements of IAS 37 have been adhered to and that the provision is materially reasonable.</p>	<p>We confirmed by reference to supporting documentation, including employee communications, that it was appropriate to establish the provision within the financial statements and that it was established in accordance with the criteria within IAS 37 that prescribes when a restructuring provision should be established.</p> <p>We obtained the Group's calculations supporting the provision and challenged the key assumptions, including the number of individuals included and the level of provision made for these individuals.</p> <p>We confirmed to supporting documentation that severance payments were to be based on years of service and age and that the assumed level of payments provided reflected previous experience from the restructuring provision established for the previous regulatory period.</p> <p>We considered that the overall level of the provision established by management was reasonable.</p>
<p>IT control environment The Group's general ledger and the majority of its sub-ledgers (with the customer billing system being the most notable exception) are operated within a SAP environment.</p> <p>SAP is a widely used system that can be customised to suit the needs of a particular organisation. The SAP environment in place within Glas Cymru has been customised in-house and changes to the customising are applied in-house on a regular basis.</p> <p>The Group's new customer billing system, RapidXtra is also a system that is used elsewhere across the water industry, but has been customised to the specific requirements of the Group and therefore is not an 'off-the-shelf' package.</p> <p>The Group's previous billing system, CAS, was developed in-house a number of years ago.</p> <p>As none of these systems are 'off-the-shelf' and all can be customised by the Group on an ongoing basis, there is a risk of unauthorised changes to application code and configuration.</p> <p>Given the high number of users accessing these different systems, there is also a risk that users have inappropriate access to systems and underlying standing data, or that insufficient segregation of duties exists to mitigate this risk.</p>	<p>We evaluated and tested the design and operating effectiveness of a range of IT general controls across SAP, RapidXtra and CAS. In particular, we focussed on the following areas of controls:</p> <ul style="list-style-type: none"> - access to programs and data; - program changes; - computer operations; and - program development. <p>This testing included procedures to confirm that starters and leavers were appropriately added to and removed from access lists in a timely manner and also considered the segregation of duties in place between key processes within the 4 areas above.</p> <p>We identified a small number of deficiencies within the IT control environment, in particular relating to access to servers and the operation of part of the purchasing sub-ledger within SAP. We performed additional testing on other controls within these areas and found that the control environment as a whole was operating sufficiently effectively for us to rely upon the controls in support of our substantive audit procedures.</p>

How we tailored the audit scope

In identifying the areas of focus, we tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Glas Cymru Cyfyngedig operates through a relatively straightforward Group structure, with only 2 trading companies; Dŵr Cymru Cyfyngedig ('DCWW') and Dŵr Cymru Customer Services Limited ('DCCS'). DCCS' role within the Group is the provision of the Group's billing and income services and is a wholly owned subsidiary of DCWW. Both companies have separate finance functions and the results of the Group are consolidated by the finance team at DCWW that also maintains the books and records of the other Group companies. These companies include Dŵr Cymru (Financing) Limited ('DCFL'), which is the Group's financing company, incorporated in the Cayman Islands.

Full scope audit procedures were performed on all 7 entities within the Group as all except DCFL are companies registered in England and Wales, which require an audit under the Companies Act 2006. In the case of DCFL, it has no statutory requirement for an audit, however given the significance of its financial statements to the consolidated Group, we have been engaged by the directors to perform a full scope non-statutory audit on the entity. We also audited the Group's acquisition accounting of Hydro 1 Limited on 19 December 2014.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£10 million (2014: £9.1 million).
How we determined it	2.5% of Earnings Before Interest, Taxation, Depreciation and Amortisation and Exceptional items and the fair value movements on derivative financial instruments ('EBITDA').
Rationale for benchmark applied	Given that the company has no shareholders and reinvests all surpluses back into the company in the form of infrastructure improvements and improvements to the delivery of the service to customers, there is a focus on the generation of positive operating cash flows, for which EBITDA is a reasonable proxy.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million (2014: £0.45 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting

The directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the parent company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and parent company acquired in the course of performing our audit; or
- otherwise misleading.

The statement given by the directors on page 62, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company acquired in the course of performing our audit.

The section of the Annual Report on page 70, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Opinions on additional disclosures

Directors' Remuneration Report

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate Governance Statement

The parent company voluntarily prepares a corporate governance statement that includes the information with respect to internal control and risk management systems and about share capital structures required by the Disclosure Rules and Transparency Rules of the Financial Conduct Authority. The directors have requested that we report on the consistency of that information with the financial statements.

In our opinion, the information given in the Corporate Governance Statement set out on pages 62 to 91 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we have agreed to report by exception

Corporate governance statement

The parent company's voluntary Corporate Governance Statement includes details of the parent company's compliance with the UK Corporate Governance Code. The directors have requested that we review the parts of the Corporate Governance Statement relating to the parent company's compliance with the ten provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the parent company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 91, 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 and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

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 Group's and the parent 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

KEA

Katharine Finn
Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
5 June 2015

Colour image/graphic
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Financial statements



Robert Griffiths

Helping keep our
sewers clear in the
Swansea area

Consolidated Income Statement for the year ended 31 March 2015

		2015		2014	
Continuing activities		Note	£m	£m	£m
Revenue			752.5		736.5
Operating costs:					
- Operational expenditure	3		(294.7)		(296.4)
- Exceptional items	4		(19.5)		-
- Infrastructure renewals expenditure	3		(57.7)		(71.8)
- Depreciation and amortisation	3		(178.5)		(163.7)
			(550.4)		(531.9)
Operating profit			202.1		204.6
Financing costs:					
- Finance costs payable and similar charges	5a		(147.9)		(160.6)
- Finance income receivable	5a		3.3		6.3
- Fair value (losses)/gains on derivative financial instruments	5b		(157.1)		94.2
			(301.7)		(60.1)
(Loss)/profit before income tax			(99.6)		144.5
Taxation		6	19.5		10.8
			(80.1)		155.3

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 (2014: nil).

Underlying profit for the year

	2015	2014
	£m	£m
(Loss)/profit before taxation per Income Statement	(99.6)	144.5
Adjustment for:		
- Fair value losses/(gains) on derivative financial statements (see note 5b)	157.1	(94.2)
- Swap terminations (see note 5a)	8.5	-
- Accounting profit on termination of leases (see note 5a)	(8.4)	-
- Exceptional items (see note 4)	19.5	-
Underlying profit for the year	77.1	50.3

Consolidated Statement of Comprehensive Income for the year ended 31 March 2015

	Note	2015 £m	2014 £m
(Loss)/profit for the year		(80.1)	155.3
Items that will not be reclassified to profit or loss			
Actuarial (loss)/gain recognised in the pension scheme	21	(32.2)	24.9
Movement on deferred tax asset relating to pension scheme	6	5.9	(5.8)
Total comprehensive (expense)/income for the year		(106.4)	174.4

Consolidated Statement of Changes in Reserves for the year ended 31 March 2015

	2015 £m	2014 £m
Balance as at 1 April	100.0	(74.4)
Total comprehensive (expense)/income for the year	(106.4)	174.4
Balance at 31 March	(6.4)	100.0

There were no changes in equity of the parent company during the year (2014: none).

Consolidated Balance Sheet as at 31 March 2015

	Note	2015 £m	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	8	3,578.4	3,442.3
Intangible assets	9	100.6	83.9
Investments	10	-	-
		3,679.0	3,526.2
Current assets			
Trade and other receivables	11	532.6	526.7
Inventories		2.0	2.3
Financial assets:			
- derivative financial instruments	15	3.7	3.7
Cash and cash equivalents	12	148.0	94.4
		686.3	627.1
Total assets		4,365.3	4,153.3
Liabilities			
Current liabilities			
Trade and other payables	13	(539.3)	(535.5)
Financial liabilities:			
- borrowings	14	(28.5)	(30.6)
- derivative financial instruments	15	(21.5)	(32.3)
Provisions for other liabilities and charges	17	(6.1)	(4.6)
		(595.4)	(603.0)
Net current assets		90.9	24.1
Non-current liabilities			
Trade and other payables	13	(99.8)	(80.2)
Financial liabilities:			
- borrowings	14	(2,998.4)	(2,879.3)
- derivative financial instruments	15	(404.3)	(236.4)
Post employment benefits	21	(32.5)	(2.8)
Provisions for other liabilities and charges	17	(21.5)	(10.3)
		(3,556.5)	(3,209.0)
Net assets before deferred tax		213.4	341.3
Deferred tax - net	7	(219.8)	(241.3)
Net (liabilities)/assets		(6.4)	100.0
(Deficit)/reserves		(6.4)	100.0

The financial statements on pages 102 to 134 were approved by the Board of Directors on 5 June 2015 and were signed on its behalf by:



C A Jones
Chief Executive Officer



P J Bridgewater
Finance Director

Parent Company Balance Sheet as at 31 March 2015

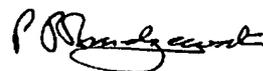
	Note	2015 £m	2014 £m
Assets			
Non-current assets			
Investments	10b	-	-
Trade and other receivables	11	3.4	3.4
		3.4	3.4
Current assets			
Cash and cash equivalents	12	0.1	0.1
		0.1	0.1
Liabilities			
Current liabilities			
Trade and other payables	13	(3.5)	(3.5)
		(3.5)	(3.5)
Net assets			
		-	-
Reserves			
Retained earnings		-	-
Total reserves		-	-

The notes on pages 107 to 134 are an integral part of these financial statements.

The financial statements on pages 102 to 134 were approved by the Board of Directors on 5 June 2015 and were signed on its behalf by:



C A Jones
Chief Executive Officer



P J Bridgewater
Finance Director

Consolidated Cash Flow Statement for the year ended 31 March 2015

	Note	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	18a	381.0	351.8
Interest paid	18b	(123.5)	(174.7)
Income tax received		1.6	-
Net cash generated from operating activities		259.1	177.1
Cash flows from investing activities			
Interest received		3.2	6.3
Purchase of property, plant and equipment		(266.6)	(227.4)
Acquisition of subsidiary		(19.7)	-
Purchase of intangible assets		(25.2)	(55.5)
Grants and contributions received		16.3	14.6
Net cash outflow from investing activities		(292.0)	(262.0)
Net cash outflow before financing activities		(32.9)	(84.9)
Cash flows from financing activities			
Long term loans received		160.0	75.0
Term loan repayments		(15.9)	(13.5)
Finance lease principal payments		(57.4)	(39.4)
Other loan repayments		(0.2)	(0.2)
Net cash inflow from financing activities		86.5	21.9
Increase/(decrease) in cash and cash equivalents	19	53.6	(63.0)
Cash and cash equivalents at 1 April		94.4	157.4
Cash and cash equivalents at 31 March	12	148.0	94.4

Parent Company Cash Flow Statement for the year ended 31 March 2015

The parent company had no cash flows during the year (2014: none).

Notes to the financial statements

1 Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2015

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 (IFRS) and IFRS interpretations committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable 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.

Glas Cymru is a company Limited by Guarantee. Our Members are a key element of our corporate structure, fulfilling the valuable role that shareholders would play in corporate governance. Its principal activity is the supply of water and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

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. The Group's annual financial statements are drawn up to 31 March. These financial statements cover the year ended 31 March 2015 with comparative amounts for the year ended 31 March 2014.

Changes in accounting policies and disclosures

The following standards have been adopted by the Group for the first

time in the financial year beginning on 1 April 2014 and have a material impact on the Group. As at 31 March 2015, there were no new standards or interpretations in issue but not yet effective which are expected to have a material impact on the company's financial statements.

Accounting standards adopted during the year

In the current year, the Group has adopted a number of new or revised accounting standards that are outlined below. The Group's principal accounting policies are unchanged compared with the year ended 31 March 2014.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of the existing IAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model for consolidation that applies to all entities, including special purpose entities.

IAS 27 (Revised 2011) Separate Financial Statements

IAS 27 (Revised 2011) now only deals with the requirements for separate financial statements because the requirements for consolidated financial statements are now contained in IFRS 10.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 Disclosure of Interests in Other Entities IFRS 12 is a new and comprehensive standard that prescribes disclosure requirements for all forms of interests in other entities, including joint ventures and associates.

Amendment to IAS 32 Financial Instruments: Presentation on offsetting financial assets and financial liabilities.

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counter parties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

The amendment also considers settlement mechanisms.

Amendments to IAS 36 Impairment of Assets on the recoverable amount disclosures for non-financial assets

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39 Financial instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counter parties. Under IAS 39 novation of derivatives to central counter parties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria.

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

Notes to the financial statements

price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs and borrowing costs.

Property, plant and equipment comprise:

- a) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- b) Other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

The carrying value of assets is reviewed for impairment if circumstances dictate that the carrying value may not be recoverable. Asset lives and residual values are reviewed annually.

Infrastructure assets

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

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

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

Other assets

Other assets are depreciated on a straight line basis over their estimated

useful economic lives, which are as follows:

Freehold buildings	60 years
Operational structures	5–80 years
Plant, equipment and computer hardware	3–40 years

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

Borrowing costs

General and specific borrowing costs directly attributable to acquisition, construction and production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those until such time as the assets are substantially ready for their intended use.

Intangible assets

Intangible assets, which comprise principally computer software, systems developments and research and development are included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met (as per IAS 38).

The carrying values of intangible assets are reviewed for impairment if circumstances 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

Notes to the financial statements

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.

Retirement benefits**1) Defined benefit scheme**

The Group operates a defined benefit 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 liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Post-service costs are recognised immediately in 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.

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 2015, none of the Group's derivatives qualified for hedge accounting under IAS 39 (2014: 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 has been recognised in relation to rolled over gains except for where reinvestment has been made in certain operational assets which the company plans to use until the end of their useful economic life. The company anticipates that these assets will then be scrapped for negligible proceeds,

or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

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

Provisions

Provisions for restructuring costs, 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 true understanding of the company's financial performance.

Use of adjusted measures

The Group presents an underlying profit before tax measure. This is used for internal performance analysis as management considers that this better represents the underlying performance of the business. Adjustments are made for exceptional items, lease terminations and fair value movements on derivatives.

Going concern

As described in the financing risk management section the Group meets its day to day working capital

Notes to the financial statements

requirement through its bank facilities. The current economic conditions continue to create uncertainty over the level of demand for the Group's services; and the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within its current facilities. After making enquires, the directors have a reasonable expectation that the Group has adequate resources to continue operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

The preparation of financial statements in conforming with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 111.

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 timed 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 £48 million (2014: £25 million).

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 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 £3,027 million as at 31 March 2015 (2014: £2,910 million) none related to floating rate debt (2014: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2015, 100% (2014: 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 £422 million in the balance sheet at 31 March 2015 (2014: £265 million) 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. 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 £3,027 million (2014: £2,910 million) 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 2015, the Group had committed undrawn borrowing facilities of £190 million (2014: £140 million) and cash and cash equivalents (excluding the debt service payments account) of £129 million (2014: £73 million).

The Group has revolving credit facilities totalling £120 million. £60 million of these facilities will expire in May 2020, with the remaining £60 million available until August 2019. There is also a £10 million overdraft facility (2014: £10 million).

Notes to the financial statements

As at 31 March 2015 there was also a special liquidity facility of £135 million (2014: £135 million); 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

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 2015 gearing was 60%.

In respect of the risks detailed above, further quantitative disclosures are provided in note 16.

Critical accounting estimates and judgements

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

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The 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 £0.8 million (2014: £0.7 million).

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability.

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 2015 was £66.8 million (2014: £64.2 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.7 million (2014: £0.7 million).

Fair value estimation

In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Group are categorised into different levels;

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability not based on observable market data (that is, unobservable inputs).

All of the Group's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2015 were valued as follows:

Assets: Trading derivatives £0.0 million, Treasury derivatives £3.7 million. (March 2014: Trading derivatives £0.0 million, Treasury derivatives £3.7 million).

Liabilities: Trading derivatives £4.2 million, Treasury derivatives £425.8 million. (March 2014: Trading derivatives £737 million, Treasury derivatives £268.6 million).

Trading derivatives relate to power price hedges and are not recorded on the balance sheet. Treasury derivatives relate to interest rate swap contracts and are recorded on the balance sheet at fair value. These have all been assessed as Level 2.

The power price hedging contracts have been fair valued using rates that are quoted in an active market. While interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

Level 2 debt investments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

There were no transfers between levels 1 and 2 during the year.

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)/profit before taxation

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

Group	2015	2014
	£m	£m
Operating expenditure		
- Power	44.1	42.6
- Chemicals	9.1	8.6
- Materials and equipment	5.5	5.1
- Vehicles and plant	7.0	7.7
- Office expenses	5.0	6.3
- Property costs	4.2	4.4
- Insurance	3.9	5.6
- Sewerage contractors	17.1	19.4
- Laboratories and analytical services	0.9	1.1
- Collection commissions	4.0	4.0
- IT contracts	18.9	21.8
- Bought-in services and other costs	25.7	24.7
	145.4	151.3
Employee costs (note 20)	122.6	113.7
Staff costs capitalised	(45.4)	(43.5)
	77.2	70.2
Research and development expenditure	-	0.4
Trade receivables impairment	29.7	28.5
Rates	26.3	29.7
Environment Agency charges	15.8	16.0
Fees payable to auditors	0.3	0.3
	294.7	296.4
Total operational expenditure before exceptional items	294.7	296.4
Exceptional items (note 4)	19.5	-
	314.2	296.4
Total operational expenditure including exceptional items	314.2	296.4
Infrastructure renewals expenditure	57.7	71.8
Depreciation and amortisation		
- Depreciation of property, plant and equipment	166.2	154.3
- Release of deferred income	(2.3)	(2.4)
- Amortisation of intangible assets	14.6	12.5
- Profit on disposal of property, plant and equipment	-	(0.7)
	178.5	163.7
	550.4	531.9

Services provided by the Group's auditors

During the year, the Group obtained the following services from its statutory auditors:

Group	2015 £000	2014 £000
Audit fees		
Audit of parent company and consolidated financial statements	13	13
Audit of subsidiary companies	98	78
Total audit fees	111	91
Audit-related assurance services		
Review of interim financial statements	23	23
Regulatory audit services pursuant to legislation	29	28
Regulatory price review assurance work	60	49
Scheme of charges assurance work	22	13
Investor report reviews	8	8
Total audit and audit-related assurance services	253	212
Other services		
Replacement billing system project assurance work	68	74
Other	2	27
Total other services	70	101
Total cost of services provided by the Group's auditors	323	313

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 £19,000 (2014: £18,000).

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. Exceptional items

On 22 March 2015 Glas Cymru announced a Selective Voluntary Severance Scheme as part of the AMP6 change programme in order to assist the business in meeting Ofwat's Final Determination of revenue controls for the period from April 2015 to March 2020. As a consequence £17.6 million of restructuring costs were considered exceptional by nature and are disclosed separately in the financial statements.

A credit of £2.1 million relates to the release of unutilised provision in respect of a previous programme of restructuring. A further £4.0 million exceptional charge has arisen following the write-off of goodwill arising on the acquisition of Hydro assets through an asset purchase vehicle (see note 10). In total, this gives rise to an exceptional charge for the period of £19.5 million.

5. Financing costs

a) Finance cost before fair value (losses)/gains on derivative financial instruments

Group	2015	2014
	£m	£m
Interest payable on bonds	(87.2)	(86.3)
Indexation on index-linked bonds	(28.6)	(38.5)
Interest payable on finance leases (including swaps to RPI)	(21.7)	(27.7)
Other loan interest	(13.0)	(12.3)
Other interest payable and finance costs	(3.2)	(2.4)
Net interest charge on pension scheme liabilities	(0.1)	(1.3)
Accounting profit on termination of leases	8.4	-
Swap terminations	(8.5)	-
Capitalisation of borrowing costs under IAS 23 (2015: 5.3%; 2014: 5.7%)	6.0	7.9
	(147.9)	(160.6)
Finance income	3.3	6.3
Net finance cost before fair value adjustments	(144.6)	(154.3)

During the year, three finance leases were terminated resulting in a profit of £8.4 million

b) Fair value (losses)/gains 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 15 in respect of derivative financial instruments held on the balance sheet.)

Group	2015	2014
	£m	£m
Fair value (losses)/gains on interest rate swaps	(36.7)	22.6
Fair value of index-linked swaps terminated	8.2	-
Fair value (losses)/gains on index-linked swaps	(128.6)	71.6
Total fair value (losses)/gains on derivative financial instruments	(157.1)	94.2

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

Three interest rate swaps were terminated on 31 March 2015 at a cost of £8.5 million.

6. Taxation

Analysis of credit in the year

Group	2015 £m	2014 £m
Current tax		
- Current tax on (loss)/profit for the year	(0.2)	0.9
- Adjustments in respect of prior years	0.5	1.5
Total current tax	0.3	2.4
Deferred tax		
- Origination and reversal of timing differences	25.7	(39.9)
- Adjustment in respect of prior year	(0.6)	6.3
- Effect of tax rate change	-	36.2
Total deferred tax (note 7)	25.1	2.6
Taxation credit	25.4	5.0
Analysed as:		
Credit to Income Statement	19.5	10.8
Credit/(charge) to Statement of Comprehensive Income	5.9	(5.8)
	25.4	5.0

Tax trading losses carried forward as at 31 March 2015 are circa £286 million (2014: circa £300 million).

The effective rate of tax for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

Group	2015 £m	2014 £m
(Loss)/profit before tax	(99.6)	144.5
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 21% (2014: 23%)	(20.9)	33.2
Effect of:		
- Adjustments in respect of prior years	-	(7.8)
- Other permanent differences	1.0	(0.2)
- Effect of pension payments in excess of service charge	(0.6)	-
- Effect of tax rate change	1.0	(36.0)
- Movement on deferred tax asset relating to pension scheme	(5.9)	5.8
Total taxation credit	(25.4)	(5.0)

7. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2014: 20%).

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

Group	2015 £m	2014 £m
At 1 April	241.3	243.9
Credit to Income Statement	(19.6)	(8.4)
(Credit)/charge to Statement of Comprehensive Income	(5.9)	5.8
Deferred tax recognised on business combination	4.0	-
At 31 March	219.8	241.3

Group	2015 £m	2014 £m
Effect of:		
- Tax allowances in excess of depreciation	367.4	353.9
- Capital gains rolled over	3.2	3.2
	370.6	357.1
- Deferred tax on tax losses carried forward	(57.2)	(61.2)
- Deferred tax on losses on derivative financial instruments	(84.4)	(53.1)
- Pensions	(6.1)	(0.2)
- Other tax differences	(3.1)	(1.3)
Net provision for deferred tax	219.8	241.3

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 parent company has no deferred tax balance (2014: nil).

8. Property, plant and equipment

Current year					
Group	Freehold land & buildings	Infrastructure assets	Operational structures	Plant, equipment, computer hardware	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2014	36.8	1,735.8	3,307.3	252.8	5,332.7
Additions net of grants and contributions	0.7	53.9	242.6	5.1	302.3
At 31 March 2015	37.5	1,789.7	3,549.9	257.9	5,635.0
Accumulated depreciation					
At 1 April 2014	18.7	262.6	1,363.4	245.7	1,890.4
Charge for the year	0.4	27.8	130.6	7.4	166.2
At 31 March 2015	19.1	290.4	1,494.0	253.1	2,056.6
Net book value					
At 31 March 2015	18.4	1,499.3	2,055.9	4.8	3,578.4

The net book value of property, plant and equipment includes £98.0 million in respect of assets in the course of construction (2014: £126.0 million).

The net book value of property, plant and equipment includes £33.4 million of borrowing costs capitalised in accordance with IAS 23 (2014: £28.8 million), of which £5.6 million were additions in the year (2014: £7.2 million).

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 2015 (2014: nil).

Prior year					
Group	Freehold land & buildings	Infrastructure assets	Operational structures	Plant, equipment, computer hardware	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2013	35.7	1,680.3	3,117.4	238.8	5,072.2
Additions net of grants and contributions	1.1	55.5	189.9	14.0	260.5
At 31 March 2014	36.8	1,735.8	3,307.3	252.8	5,332.7
Accumulated depreciation					
At 1 April 2013	18.3	236.6	1,246.1	235.1	1,736.1
Charge for the year	0.4	26.0	117.3	10.6	154.3
At 31 March 2014	18.7	262.6	1,363.4	245.7	1,890.4
Net book value					
At 31 March 2014	18.1	1,473.2	1,943.9	7.1	3,442.3

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 2015			
Cost	611.8	177.7	789.5
Accumulated depreciation	(97.9)	(100.9)	(198.8)
Net book value	513.9	76.8	590.7
Prior year			
	Infrastructure assets	Operational structures	Total
	£m	£m	£m
At 31 March 2014			
Cost	611.8	275.5	887.3
Accumulated depreciation	(90.2)	(155.2)	(245.4)
Net book value	521.6	120.3	641.9

The parent company owns no property, plant or equipment (2014: nil).

9. Intangible assets

Group			
Current year	Cost	Accumulated amortisation	Net book value
	£m	£m	£m
At 1 April 2014			
	185.0	(101.1)	83.9
Additions/(charge for the year)	31.3	(14.6)	16.7
At 31 March 2015	216.3	(115.7)	100.6
Prior year			
	Cost	Accumulated amortisation	Net book value
	£m	£m	£m
At 1 April 2013			
	154.7	(88.6)	66.1
Additions/(charge for the year)	30.3	(12.5)	17.8
At 31 March 2014	185.0	(101.1)	83.9

Intangible assets comprise computer software and related system developments.

The net book value of intangible assets includes £4.7 million in respect of assets in the course of construction (2014: £2.0 million). The net book value of intangible assets includes £1.0 million of borrowing costs capitalised in accordance with IAS 23 (2014: £1.1 million), of which £0.3 million were additions in the year (2014: £0.3 million).

The parent company owns no intangible assets.

10. Investments

(a) Group

	2015	2014
	£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 held 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) plc. This was redeemed on 31 March 2014.

(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 and is registered in England and Wales:

	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%
Hydro 1 Limited	Asset purchase vehicle	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 63.

On 3 February 2015, the Group acquired 100% equity of Hydro 1 Ltd. A consideration of £19.7 million secured the purchase of hydro assets with a fair value of the fixed assets of £21 million and sales contract that has been fair valued a liability of £1.3 million. The assets have been brought into the operating company Dŵr Cymru Cyfyngedig which has resulted in a £4 million deferred tax liability. The goodwill associated with the deferred tax liability was immediately written off.

11. Trade and other receivables

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Current				
Trade receivables	527.9	502.8	-	-
Provision for impairment of receivables	(78.9)	(65.9)	-	-
Trade receivables - net	449.0	436.9	-	-
Prepayments and accrued income	74.3	67.4	-	-
Other receivables	9.3	22.4	-	-
	532.6	526.7	-	-
Non-current				
Amounts receivable from Group undertakings	-	-	3.4	3.4
Total trade and other receivables	532.6	526.7	3.4	3.4

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

As at 31 March 2015, based on a review of historical collection rates it was considered that £78.9 million (2014: £65.9 million) of trade receivables were impaired and these have therefore been provided for. 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	377.5	-	377.5
Under one month	24.7	(7.2)	17.5
Between one and six months	28.1	(11.4)	16.7
Between six months and one year	44.2	(14.1)	30.1
Between one and two years	30.7	(25.2)	5.5
Between two and three years	20.4	(18.7)	1.7
Over three years	2.3	(2.3)	-
	527.9	(78.9)	449.0
Prior year	Total	Provided for	Net
Trade receivables	£m	£m	£m
Billed in advance	387.6	-	387.6
Under one month	11.2	(5.3)	5.9
Between one and six months	27.7	(13.5)	14.2
Between six months and one year	25.8	(12.7)	13.1
Between one and two years	27.1	(19.5)	7.6
Between two and three years	19.1	(14.1)	5.0
Over three years	4.3	(0.8)	3.5
	502.8	(65.9)	436.9

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 (2014: nil).

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

	2015	2014
	£m	£m
At 1 April	65.9	61.4
Charge to Income Statement	29.1	27.9
Receivables written off during the year as uncollectable	(16.1)	(23.4)
At 31 March	78.9	65.9

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 £16.1 million of debt which had been provided for in full (2014: £23.4 million).

12. Cash and cash equivalents

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Cash at bank and in hand	12.0	4.8	0.1	0.1
Short-term deposits	136.0	89.6	-	-
	148.0	94.4	0.1	0.1

The effective interest rate on short-term deposits as at 31 March 2015 was 0.4% (2014: 0.5%) and these deposits had an average maturity of 30 days (2014: 5 days). All cash and cash equivalents are held in sterling.

13. Trade and other payables

Current	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Trade payables	49.3	47.1	-	-
Capital payables	40.9	30.2	-	-
Amounts due to Group undertakings	-	-	3.5	3.5
Social security and other taxes	3.9	3.8	-	-
Accruals and deferred income	445.2	454.4	-	-
	539.3	535.5	3.5	3.5

Non-current	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Deferred income	99.8	80.2	-	-

14. Financial liabilities – borrowings

Current

Group	2015	2014
	£m	£m
Interest accruals	6.0	0.9
Unamortised bond premium	0.6	0.6
Unamortised bond issue costs	(0.3)	(0.3)
European Investment Bank loans	11.6	15.9
Local authority loans	0.3	0.3
Finance lease obligations	10.3	13.2
	28.5	30.6

Non-current

Group	2015	Group 2014
	£m	£m
Interest accruals	52.8	49.2
Bonds	2,005.5	1,976.8
Unamortised bond premium	7.3	7.9
Unamortised bond issue costs	(4.7)	(5.1)
KfW Bank loan	35.0	35.0
European Investment Bank loans	405.0	256.6
Local authority loans	0.6	0.8
Finance lease obligations	496.9	558.1
	2,998.4	2,879.3

The parent company has no borrowings (2014: nil).

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

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

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

The Group's Class A Bonds of £973.7 million (2014: £960.8 million) benefit from a guarantee from MBIA UK Insurance Limited ("MBIA"). MBIA's credit rating has been reduced to Ba2 and B 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 £1,000.6 million (2014: £988.1 million).

15. 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 5b). 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 - current year	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	3.7	(12.0)
Interest rate swaps	-	(9.5)
	3.7	(21.5)
Non-current		
Index-linked swaps	-	(307.6)
Interest rate swaps	-	(96.7)
	-	(404.3)
Total	3.7	(425.8)

Group - prior year	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	3.7	(21.4)
Interest rate swaps	-	(10.9)
	3.7	(32.3)
Non-current		
Index-linked swaps	-	(175.0)
Interest rate swaps	-	(61.4)
	-	(236.4)
Total	3.7	(268.7)

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 (2014: nil).

Interest rate swaps

At 31 March 2015, an interest rate swap fixes the interest rate on £192 million (2014: £192 million) 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%.

During March 2015, the company terminated three interest rate swaps at a termination cost of £8.5 million. Two of the terminated swaps swapped floating rate debt to index-linked. The remaining swap fixed the interest rate on floating rate liabilities.

Index-linked swaps**Finance lease swaps**

The index-linked swaps have the effect of index-linking the interest rate on £425 million (2014: £436 million) 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 2015 is £427 million (2014: £440 million), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2015. 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	£427 million amortising (2014: £440 million amortising)
Average swap maturity	23 years (2014: 23 years)
Average interest rate	1.63% fixed plus RPI (2014: 1.63% fixed plus RPI)

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	£131 million (2014: £128 million)
Swap maturity	42 years (2014: 43 years)
Interest rate	1.35% indexed by RPI (2014: 1.35% indexed by RPI)

16. Financial risk management

The policies of the Group in respect of financial risk management are included in the accounting policies note on page 107. 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:

	2015	2014
Assets:		
Cash and cash equivalents	0.4%	0.5%
Liabilities:		
Bonds	4.4%	5.2%
European Investment Bank loans	1.1%	1.1%
KfW loan	1.2%	1.2%
Local authority loans	4.0%	5.0%
Finance lease obligations	0.8%	1.0%

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 15. They also exclude the indexation charge applicable to the index-linked bonds.

b) Liquidity risk

Group - current year	Within 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
	£m	£m	£m	£m	£m
Assets:					
Cash and cash equivalents	148.0	-	-	-	148.0
Trade and other receivables	532.6	-	-	-	532.6
	680.6	-	-	-	680.6
Liabilities:					
Bonds	0.6	0.6	0.7	2,011.5	2,013.4
KfW Bank loan	-	35.0	-	-	35.0
European Investment Bank loans	11.6	20.3	72.3	312.4	416.6
Local authority loans	0.3	0.1	0.5	-	0.9
Finance lease obligations	10.3	50.1	36.0	410.8	507.2
Trade and other payables	539.3	1.8	4.9	93.0	639.0
	562.1	107.9	114.4	2,827.7	3,612.1
Group - prior year					
	£m	£m	£m	£m	£m
Assets:					
Cash and cash equivalents	94.4	-	-	-	94.4
Trade and other receivables	526.7	-	-	-	526.7
	621.1	-	-	-	621.1
Liabilities:					
Bonds	0.6	0.6	0.6	1,983.5	1,985.3
KfW Bank loan	-	-	35.0	-	35.0
European Investment Bank loans	15.9	11.6	92.6	152.4	272.5
Local authority loans	0.3	0.3	0.5	-	1.1
Finance lease obligations	13.2	14.2	86.9	456.9	571.2
Trade and other payables	535.5	1.8	4.9	73.7	615.9
	565.5	28.5	220.5	2,666.5	3,481.0

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

	2015	2014
	£m	£m
Gross finance lease liabilities		
Within one year	16.2	18.9
Between two and five years	123.0	123.4
After five years	505.8	514.2
	645.0	656.6
Future interest	(137.8)	(85.3)
Net finance lease liabilities	507.2	571.2

Net finance lease liabilities are repayable as follows:

Within one year (note 14)	10.3	13.2
Between two and five years	86.0	101.1
After five years	410.9	456.9
Total over one year (note 14)	496.9	558.0

c) Fair values

The fair values of the Group's derivative financial instruments are set out in note 15. The following table summarises the fair value and book value of the Group's bonds.

	2015		2014	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Bonds (note 14)	2,013.4	2,671.6	1,985.3	2,168.9

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

d) Borrowing facilities

As at 31 March 2015, the Group had available undrawn committed borrowing facilities of £190 million expiring as set out below, in respect of which all conditions precedent had been met (2014: £140 million).

	2015	2014
	£m	£m
Expiring in more than than 1 year:		
- term loan facility	-	-
- revolving credit facilities	-	30.0
Expiring in more than 1 year:		
- revolving credit facilities	120.0	110.0
- term loan facility	70.0	-
	190.0	140.0

Dŵr Cymru Cyfyngedig also has a £10 million overdraft facility renewable on an annual basis (2014: £10 million).

On 17 November 2014 the Group agreed a loan facility with the European Investment Bank. £160 million of the facility has since been drawn: £80 million on 15 December 2014 and £80 million on 15 January 2015. The remaining £70 million loan facility with European Investment Bank is available up to May 2016.

The Group has £120 million of revolving credit facilities, of which £60 million of which will expire in May 2020. The remaining £60 million is available until August 2019 with an option to extend for a further year to 2020.

At 31 March 2015, Dŵr Cymru (Financing) Limited also had a special liquidity facility of £135 million (2014: £135 million) 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

	2015	2014
	£m	£m
Total borrowings	(3,027)	(2,909)
Less: cash and cash equivalents	148	94
Net debt	(2,879)	(2,815)
Regulatory capital value (RCV)	4,831	4,468
Total capital	1,952	1,653
Less: unamortised bond costs	(5)	(5)
Total capital per bond covenants	1,947	1,648
Gearing ratio	60%	63%

The Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

17. Provisions for other liabilities and changes

	Restructuring provision	Dilapidation provision	Uninsured loss provision	Other provisions	Total
	£m	£m	£m	£m	£m
At 1 April 2014	3.1	2.2	6.6	3.0	14.9
Charged to income statement	17.6	-	0.9	0.5	19.0
Unused amounts reversed	(2.1)	-	-	-	(2.1)
Utilised in year	(0.9)	(0.4)	(2.9)	-	(4.2)
At 31 March 2015	17.7	1.8	4.6	3.5	27.6
Split as:					
Amounts to be utilised within one year	6.0	0.1	-	-	6.1
Amounts to be utilised after more than one year	11.7	1.7	4.6	3.5	21.5
At 31 March 2015	17.7	1.8	4.6	3.5	27.6

The parent company has no provisions at 31 March 2015 (2014: £nil).

Restructuring provision

This provides for the cost of restructuring associated with a reduction in the headcount by around 360.

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.

18. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

Group	2015	2014
	£m	£m
Operating profit	202.1	204.6
Adjustments for:		
- Depreciation and amortisation	178.6	163.7
- Changes in working capital:		
Increase in trade and other receivables	(7.4)	(0.5)
Decrease/(increase) in inventory	0.3	(0.7)
Decrease in trade and other payables	(6.8)	(3.2)
Pension contributions above service cost	(2.4)	(10.0)
Increase/(decrease) in provisions	12.6	(2.1)
Other adjustments	4.0	-
	(0.3)	(16.5)
Cash generated from operations	381.0	351.8

b) Interest paid

Group	2015 £m	2014 £m
Interest payable per income statement	147.9	160.6
Less non-cash items:		
- Indexation on index-linked bonds	(28.6)	(38.5)
- Amortisation of bond issue costs	(0.3)	(0.3)
- Interest charge on pension scheme liabilities	-	(1.3)
- Amortisation of bond issue premium	0.6	0.6
- Effect of capitalisation under IAS 23	6.0	7.9
- Accounting profit on lease termination	8.4	-
- (Increase)/decrease in accruals	(10.5)	45.7
	(24.4)	14.1
Interest paid	123.5	174.7

19. Analysis and reconciliation of net (debt)/cash**a) Net (debt)/cash at the balance sheet date may be analysed as:**

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash and cash equivalents	148.0	94.4	0.1	0.1
Debt due after one year	(2,448.7)	(2,272.1)	-	-
Debt due within one year	(12.2)	(16.5)	-	-
Finance leases	(507.2)	(571.2)	-	-
Accrued interest	(58.8)	(50.1)	-	-
	(3,026.9)	(2,909.9)	-	-
Net (debt)/cash	(2,878.9)	(2,815.5)	0.1	0.1

b) The movement in net (debt)/cash during the year may be summarised as:

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Net (debt)/cash at start of year	(2,815.5)	(2,737.5)	0.1	0.1
Movement in net cash	53.6	(63.0)	-	-
Movement in debt arising from cash flows	(86.5)	(21.9)	-	-
Movement in net debt arising from cash flows	(32.9)	(84.9)	-	-
Movement in accrued interest	(8.8)	39.7	-	-
Indexation of index-linked debt	(28.6)	(38.5)	-	-
Accounting profit on lease termination	8.4	-	-	-
Other non-cash movements	(1.5)	5.7	-	-
Movement in net debt during the year	(63.4)	(78.0)	-	-
Net (debt)/cash at end of year	(2,878.9)	(2,815.5)	0.1	0.1

20. Employees and directors

Staff costs for the Group during the year

	2015	2014
	£m	£m
Wages and salaries	100.7	98.0
Social security costs	9.6	8.1
Other pension costs	12.3	7.6
	122.6	113.7

Of the above, £45.4 million (2014: £43.5 million) has been capitalised.

Average monthly number of people employed by the Group	2015	2014
(including executive directors)	Number	Number
Regulated water and sewerage activities	2,962	2,871

For further information see Remuneration Report on page 74.

The parent company had no employees during the year (2014: nil).

The Glas Cymru Board delegates certain of the Group's strategic and operational activities to the Dŵr Cymru Executive, a senior management group comprising both executive directors and employees. Total remuneration of these key personnel was as follows:

	2015	2014
	£m	£m
Executive Directors (see Remuneration report, page 81)	1.9	2.0
Other key personnel	1.7	1.7
Total Dŵr Cymru Executive remuneration	3.6	3.7

21. 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 2013 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2015 and the principal assumptions made by the actuaries were:

	2015	2014
Discount rate	3.4%	4.4%
Inflation assumption	3.0%	3.4%
Rate of increase in pensionable salaries	2.0%	2.3%
Rate of increase in pensions in payment	2.9%	3.2%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	87.2 years	87.1 years
- Current pensioners aged 65 - females	89.4 years	89.3 years
- Future pensioners aged 65 (currently aged 45) - males	88.6 years	88.4 years
- Future pensioners aged 65 (currently aged 45) - females	90.9 years	90.8 years

EFRBS

During 2011, the Company put arrangements in place via an Employer Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the Dŵr Cymru Welsh Water Scheme. At 31 March 2015, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the payment of his benefits.

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:

	2015		2014	
	Expected return	% of total assets	Expected return	% of total assets
Equities	6.5%	48.3%	6.5%	54.6%
Bonds	5.0%	39.3%	5.0%	32.2%
Other	3.0%	2.5%	3.0%	2.4%

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April 2014	320.1	(318.9)	1.2
Current service cost	8.7	-	8.7
Interest expense/(income)	14.7	(14.7)	-
Past service cost	0.4	-	0.4
Expenses	-	0.2	0.2
	23.8	(14.5)	9.3
Remeasurements			
Loss from change in financial assumptions	60.7	-	60.7
Experience gains	-	(28.4)	(28.4)
	60.7	(28.4)	32.2
Contributions	-	(12.3)	(12.3)
Benefits paid	(8.0)	8.0	-
	(8.0)	(4.3)	(12.3)
At 31 March 2015	396.6	(366.1)	30.5
	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April 2013	323.3	(291.2)	32.1
Current service cost	9.9	-	9.9
Interest expense/(income)	14.7	(13.4)	1.3
Past service cost	0.2	-	0.2
Expenses	0.7	0.6	1.3
	25.5	(12.8)	12.7
Remeasurements			
Gain from change in demographic assumptions	(8.7)	-	(8.7)
Gain from change in financial assumptions	(14.6)	-	(14.6)
Experience gains	-	(1.5)	(1.5)
	(23.3)	(1.5)	(24.8)
Contributions	-	(16.5)	(16.5)
Benefits paid	(5.4)	5.4	-
Bulk transfer	-	(2.3)	(2.3)
	(5.4)	(13.4)	(18.8)
At 31 March 2014	320.1	(318.9)	1.2

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

	2015	2014
	£m	£m
Present value of funded obligations	(396.6)	(320.1)
Fair value of plan assets	366.1	318.9
	(30.5)	(1.2)
EFRBS unfunded liability	(2.0)	(1.6)
Net liability recognised in the Balance Sheet	(32.5)	(2.8)

	2015	2014	2013	2012	2011
Experience adjustments arising on scheme assets:					
Amount (£m)	(24.2)	(2.9)	17.9	(9.5)	(8.2)
Percentage of scheme assets	4%	(3%)	(6%)	(4%)	(4%)
Experience adjustments arising on scheme liabilities:					
Amount (£m)	(60.7)	(5.1)	(15.7)	(16.4)	3.6
Percentage of the present value of scheme liabilities	(15%)	(5%)	(5%)	(6%)	2%
Present value of scheme liabilities (£m)	396.6	320.0	323.3	272.8	238.4
Fair value of scheme assets (£m)	366.1	318.8	291.1	240.7	222.9
Deficit (£m)	(30.5)	(1.2)	(32.1)	(31.9)	(15.5)

The contributions paid in the year to 31 March 2015 include special contributions of £1.3 million (2014: £1.2 million). There were no contributions paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2014: £3.5 million). The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2016 amounts to £1.3 million.

Sensitivity of the defined benefit obligation to changes in the weighted principal assumptions.

	Change in assumption	Increase in liabilities
Discount rate	0.1%	£8.3m
Price inflation	0.1%	£8.3m
Life expectancy	1 year	£8.8m

The above sensitivity analysis is based on isolated changes in each assumption whilst holding all other assumption constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between the movements in different assumptions.

22. Capital and other financial commitments

The Group's Business Plan at 31 March 2015 shows net capital expenditure and infrastructure renewals expenditure of £332 million (2014: £330 million) 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.

23. Related party transactions

In accordance with the exemption afforded by IAS 24 there is no disclosure in the consolidated financial statements of transactions with entities that are part of the Glas Cymru Cyfyngedig Group. The parent company has not entered into transactions with any other group company during the year (2014: none).

24. Status of the company

The company is limited by guarantee and does not have any share capital. In the event of the company being wound up, the liability of the members is limited to £1 each.

25. Elan Valley Trust Fund

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

The sum of £31.7 million, 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 2015, the market value of the trust fund was £113 million (2014: £103 million).

Interest receivable includes £2.5 million (2014: £5.6 million) in respect of distributions from the Elan Valley Trust Fund.

26. 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 (2014: nil).

Abstraction	The removal of water from any source.
AMP	The water industry operates on five-yearly cycles called 'Asset Management Plans'. AMP5 ran from 2010 to 2015 and AMP6 from 2015-2020.
Anaerobic digestion	A process by which organic material is broken down by bacteria and other micro-organisms to generate renewable energy.
Assets	This includes infrastructure such as water mains and sewers, dams and reservoirs, water and sewage treatment works, pumping stations, company laboratories, depots and workshops.
AVPS	Annual Variable Pay Scheme - A performance record element of emoluments.
Bacteriological failures	The drinking water supplied to customers is sampled and analysed against a range of chemical and bacteriological parameters. If a sample shows a bacteriological parameter that exceeds the limit specified in the regulations, it is deemed a Bacteriological Failure.
Capital investment programme	A water company's planned construction work to build, replace or renew assets.
Catchment	An area of land through which water drains into a body of water (such as a river or reservoir).
CSO	Combined Sewer Overflows act as relief valves which prevent the overloading of sewers which could otherwise lead to flooding of properties and sewage treatment works.
Company limited by guarantee	A private company that does not have shareholders or share capital.
CCWater	Consumer Council for Wales - see page 17.
Credit rating	Credit ratings provide an opinion on the credit quality of a company which can affect the cost of borrowing.
Customer Payment Account	The Customer Payment Account is the allocation of Customer Reserves used specifically for rebates to customers.
Customer Reserves	Customer Reserves is the difference between the RCV and net debt and is therefore a measure of the value created by the business for customers. Some of that value can be used for investment in the business and rebates to customers. We aim to keep net debt to be 60% of the RCV and retained Customer Reserves as the remaining 40%.
Discharge Permits	Legal agreements issued by the environmental regulator relating to the amount, quality and frequency of wastewater that can be returned to the environment.
DWI	Drinking Water Inspectorate - see page 17.
Drinking Water Safety Plan	This is a proactive method of assessing risk to drinking water quality, which better protects public health.
Drought	A drought is a prolonged period of exceptionally low rainfall, which causes a strain on water resources.
Drought Plan	Statutory plan produced by a water company that details the actions to be taken to manage the supply of water in a drought.
Effluent	Water that flows from a sewage treatment plant after it has been treated.

Environment Agency (EA)	An executive, non-departmental Government body that has a statutory duty to protect and enhance the environment in England.
Financeability	The ability of appointed water companies to finance their functions through debt, equity or retained earnings.
Gearing	Net debt expressed as a percentage of regulatory capital value.
Glas Cymru	Glas Cymru was formed to own, finance, and manage Dŵr Cymru Welsh Water.
Groundwater	Water that can be found in the saturated zone of the soil.
Group	Glas Cymru Cyfyngedig and all its subsidiaries.
ICT	Information and communications technology.
Leakage	Water lost between the treatment works and the customer's home or business.
Let's Stop the Block	Behavioural change campaign being undertaken by Welsh Water which asks customers to help reduce the number of sewer blockages.
Long Term Variable Pay Scheme	A performance record element of emoluments.
'Look-up' Compliance	This is where a wastewater treatment works (WWTW) fails to meet the consented parameters set by the NRW or EA for less than 95% of the time.
Mean Zonal Compliance	Mean Zonal Compliance (MZC) measures compliance in all the water quality zones for 39 key chemical and bacteriological parameters as measured by the statutory monitoring programme of samples taken from customers taps.
Megalitres	One megalitre is equal to 1,000 cubic metres or one million litres. A standard Olympic-size swimming pool contains 2.5 megalitres of water.
NRW	Natural Resources Wales - see page 17.
Non-Executive Directors	Members of Welsh Water's Board. Non-Executive Directors are not responsible for the day-to-day running but challenge management and oversee the running of the company.
Ofwat	The economic regulator for the water industry in England and Wales.
Operating costs	Total operating expenditure of the business, net of any operating income, primarily any profits or losses on the disposal of fixed assets.
Pollution Incidents	An accidental or deliberate release of contaminants such as oils, fuels and chemicals that can be harmful to human health and the environment.
Private Sewer Transfer (PST)	In 2011, the UK Government transferred ownership of most of the private sewers in England and Wales to the 10 water and sewerage companies, to form part of the public sewer network.
Pumping station	Used to pump water or sewerage from one place to another.
Quality and Environment Committee (QEC)	Board level Committee in Welsh Water which addresses performance and operational risk issues across the company.
RainScope	Welsh Water's approach to managing surface water and overloaded sewers (sustainable urban drainage systems).

Real terms	This means the change in a financial number after correcting for the effect of inflation.
Regulatory Capital Value	As defined by Ofwat.
Reservoir	A natural or artificial lake where water is collected and stored until needed.
Rising main	A pumped pipeline that carries wastewater.
Scorecard	A statistical record used by Welsh Water to measure achievement or progress towards a particular goal.
Service Incentive Mechanism (SIM)	This is an Ofwat measure designed to improve the level of customer service that water companies provide.
Service reservoir	This is a tank containing drinking water that is usually sited within or near to a water distribution system.
Serviceability	The capability of a system of assets to deliver an expected level of service to consumers and to the environment now and into the future.
Sewer	An underground pipe that takes household and non-household wastewater away from properties for treatment and disposal.
Sewer flooding	Occurs when wastewater escapes from sewer pipes through a manhole cover or a drain, or by backing up through toilets.
Safety Takes Every Person (STEP)	Behavioural safety training which emphasises that each individual has responsibility for Health and Safety issues.
Storm tank	A tank into which, in wet weather, stormwater and wastewater is stored until the wastewater treatment works can treat it.
Supply/demand balance	The balance of the volume of water available.
Surface water	Run-off from rainwater that falls onto customers' properties (such as roofs, paths and driveways).
Surface water drainage	The removal of rainwater, snow or melted ice from exterior areas of a property (such as roofs and driveways) often to a surface water sewer or combined sewer.
Sustainable Urban Drainage (SuDS)	A sustainable drainage system is designed to reduce the potential impact of new and existing developments with respect to surface water drainage discharges.
Totex	The total sum of capital expenditure and operational expenditure.
Trunk main	A main through which water is fed into a water distribution system. A trunk main will often run from a water treatment works to a service reservoir.
Wastewater	Waste matter from household or non-household properties that is carried away from properties in sewers or drains.
Wastewater treatment works	Wastewater treatment works are designed to remove biological or chemical waste products from water before it is returned to water sources.
Water main	A large pipe that carries treated water to households.
Water Resource Management Plan	This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years.
Water treatment works	Water treatment plants produce drinking water for public consumption or industrial water for manufacturing or other business operations.

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