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GLAS CYMRU
REPORT & ACCOUNTS
2015—2016

OUR STORY

2001

Glas Cymru secures ownership of Welsh Water after a £1.9 billion bond issue

Glas Cymru deal named world's top deal of 2001

2003

Approximately 150 colleagues working directly for Welsh Water

2005

Welsh Water gives an annual 'customer dividend'of £18 to each of its 1.2 million customers. The dividend gives £23 million to customers in 2005-06 and a total £115 million over the five-year period 2005-10.

Temporary Boil Water Notice issued to 30,000 customers supplied by Cwellyn Water Treatment Works in North Wales

2006

Welsh Water marks £1 billion investment in wastewater network at Billion Pound Beach Event at Barry Island

2009

Welsh Water confirms £1.5 billion investment over five years to 2015

Started out 'Go to Green' investment programme of £120 million at 12 Water Treatment Works

2010

Welsh Water managing a record number of bursts on its drinking water network—nearly 200 in one day—and 5,000 calls from customers reporting problems on Boxing Day

Over 1,600 colleagues in-sourced to Welsh Water with the main operating and maintenance contracts being brought in-house to reduce cost and improve customer focus

SO FAR

2011

Welsh Water invests £40 million in its first advanced anaerobic digestion facility at Cardiff Wastewater Treatment Works

2013

Welsh Water confirms its best ever overall performance to date since 2001

Welsh Water named Large Responsible Business of the Year in Business in the Community Awards Wales

2014

Welsh Water confirms £1.7 billion investment between 2015 and 2020 with bill increases 1% below RPI each year

2015

Welsh Water returned over £150 million of value to customers in last five years

2016

Welsh Water acquires Llanishen and Lisvane Reservoirs in Cardiff to help future economic growth in the capital city

Welsh Water changes its corporate structure to enable it to introduce additional commercial services to its customers

Overall best performance since 2001

Nearly 55,000 customers who struggle to pay bills receiving financial assistance

Company attains Welsh Government's Gold Corporate Heath Standard award

1 million people visit our visitor centres around Wales

45,000 children and young people visit our four Discovery Centres or take part in our educational outreach programmes

05/2016

Glas Cymru celebrates 15th anniversary since aquiring Welsh Water and being set up as a not-for-profit company in 2001

REPORT AND ACCOUNTS 2015—2016

15TH ANNIVERSARY EDITION

CONTENTS

This report and Accounts is for the Glas Cymru Group. During March 2016, as stated above and explained in detail later in the report, the existing holding company re-registered as Glas Cymru Anghyfyngedig (an unlimited company), following the creation of a new holding company Glas Cymru Holdings Cyfyngedig, a not-for-profit company limited by guarantee.

This is the Report and Accounts for the Glas Group under Glas Cymru Cyfyngedig., which is now registered as Glas Cymru Anghyfyngedig. References to Welsh Water are to the trading name for Dŵr Cymru Cyfyngedig which is the licensed statutory water and sewerage undertaker and a 100% owned subsidiary of Glas Cymru Anghyfyngedig.

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CHAIRMAN'S WELCOME

Just fifteen years ago Terry Burns (my predecessor as chairman), Nigel Annett and Chris Jones, created Glas Cymru, a company limited by guarantee, borrowed £1.9 billion on the London capital markets to buy Dŵr Cymru Welsh Water out of the wreckage of the Hyder Group and, improbably, succeeded in doing so under the nose of aggressive competitors. Unusually, they did not do so for their personal benefit but so that Welsh Water could be managed in the future solely for the benefit of its customers; an idea that was regarded sceptically by many, including perhaps by some customers themselves.

At the time of the acquisition the company's gearing was 93%, so there was very little financial leeway, and operating performance was relatively poor. Nine years later, six years ago, I inherited from Terry a much improved business; financially stronger with gearing in the 70% range and operationally better against Welsh Water's historical best performance. But our customer charges were still relatively high and our operating performance, against our peers, not yet where it should be.

Our ambition was to improve from there and deliver even better outcomes for our customers. Last year I reported our best year since the buy-out and now I am glad to say we have done better than that. We now rank towards the top of industry league tables on most (though not yet all) of the measures that matter to our customers and for our environment.

But we also intended to show that the 'Glas' model really did work for customers and, I believe, there is now no doubt that it does.

Our Members do not receive dividends and their only interest is the selfless one of overseeing the performance of Welsh Water and holding the Board to account. Glas Cymru's business is focussed on owning, financing and managing Welsh Water in the interests of Welsh Water's customers, both today's and future generations.

We finance Welsh Water's £25 billion network of long life assets and continuing large capital investment programme through long term, low risk bonds and other largely fixed interest debt instruments. And financing efficiency is a big advantage. Glas's reserves now stand at £2 billion and our gearing ratio is now around 57% with the best credit ratings in the UK utilities sector. With our £1.7 billion capital investment programme to 2020, we will continue to support some 6,000 jobs in the Welsh economy.

This strong financial position has allowed us to do much more for our customers than would have otherwise been possible. In the past we paid customer dividends to limit the impact of rising customer bills. But with Welsh Water's customer bills falling by 10% on average in real terms between 2010 and 2016 the Board has this year again decided that our customers' interests are best served by accelerating future planned investment to improve the reliability and quality of our service to customers. At the same time we have helped a record number of customers who find it difficult to pay their bills. As in previous years, all the profits we have made have been reinvested in the business for the benefit of our customers

While the Board is pleased with this progress, we have set targets for our business which expect higher standards still and which will ensure that we meet the expectations and priorities of our customers, which determined our plan for this AMP up to 2020.

I would like to thank Members for the significant role they continue to play as 'critical friends' of the company as they form a key part of our system of governance.

Our ability to deliver the best outcomes for our customers—and in particular to accelerate capital investment while customer bills are falling in real terms—depends crucially on a continuing stable regulatory environment. We have been able to raise bond finance for capital investment for up to 50 years at very attractive interest rates because we can persuade long-term investors that our company and our industry are low risk. At a time of continuing uncertainty—when investors are looking for a "safe home"—maintaining the attractiveness of water companies as an investment has never been more important. We are therefore pleased that both the UK and Welsh Governments remain committed to the stability of the current regulatory model.

The Board also continues to place great store in ensuring that Welsh Water meets all its obligations to its economic, environmental and water quality regulators and acts in an open and transparent manner so that we can retain the trust and confidence of our customers.

On the basis of our strong financial position the Board, earlier this year, proposed to the company's members a change in the governance structure to create a new holding company for the Group (Glas Cymru Holdings Cyf) and to allow for the group to invest up to £100 million in water industry related services and businesses as more competition is permitted by regulators. After a very well informed debate this was approved by Members and consented to by bond-holders in February 2016 and came into effect in March.

I would like to thank all our Members for the significant role they continue to play and contribution they make as 'critical friends' of the company as a key part of our system of governance.

It has been an enormous privilege to have served as Chairman of this company and I am sad to be retiring but I am pleased that my colleagues on the board have selected Alastair Lyons as my successor. Subject to the vote of Members, he will be taking over as Chairman immediately after the AGM in July 2016. I have no doubt that Alastair will oversee continuing success.

I would like to thank all my colleagues on the Board (past and present) for the support they have given me over the past six years and for all they do in the service of the company. I would like to thank James Strachan, who stepped down as a Director at the AGM in July 2015 after eight years of service, latterly as Chair of the Remuneration Committee. This year we have also welcomed Joanne Kenrick as a Non-Executive Director.

Finally, but most importantly, I thank all the employees both of Welsh Water itself and of our contract partners. Their unwavering commitment and enthusiasm in always putting our customers first is the essential ingredient of our success and the way they have responded to many challenges throughout the year, especially during some extreme weather conditions and emergency incidents, to maintain services and protect the environment is both appreciated and inspiring.

I am therefore proud to report on behalf of the Board that Glas Cymru remains in a very strong position. Our finances are sound; we have the right management team in place; our uncompromising focus is still on our core services of providing an efficient and high-quality customer service and affordable prices; and our plans up to 2020 and beyond are ambitious but realistic. I am proud to have played a part in contributing to the Glas Cymru success and wish everyone involved with company the very best for the future as it strives to become the industry-leader across all fronts and push at the boundaries of what it means to be a truly successful and customer-led water and sewerage company in the twenty first century.

Robert Ayling

Robert Ayling
Chairman

3 June 2016

STRATEGIC REPORT

THIS STRATEGIC REPORT DOCUMENTS OUR PERFORMANCE OVER THE PERIOD 2015-16, THE RISKS WE FACE AND HOW WE MITIGATE THEM AND OUR FUTURE VISION AND STRATEGY.

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CHIEF EXECUTIVE'S REVIEW

I am pleased to report that the past 12 months has continued to be a period of very good progress here at Welsh Water as we continue to work towards achieving our single, clear vision for the business which is to 'earn the trust of our customers every day'. Whilst we have delivered industry leading levels of service in some areas, we also recognise that we need to improve in other areas so that we can ensure that all our customers receive the best possible service at all times.

This is why we're continuing to benchmark ourselves against the best companies in terms of customer service and rolling out our Customer-led Success initiative. This will help drive a more customer-led culture internally and enable us to use improved customer insight to drive further service improvement. As a company owned on behalf of the three million people it serves and run solely for their benefit, we are determined to meet the increased customer expectations and priorities of our customers.

CUSTOMERS

Overall, we have delivered a good level of customer service over the past 12 months which has been borne out by the fact that we secured second place in Ofwat's Customer Satisfaction Survey league table for 2015-16, compared to the other water and sewerage companies. This follows findings published by the UK's Institute of Customer Service in July 2015 which placed Welsh Water as the best water and sewerage company in England and Wales in terms of customer satisfaction and customer trust. Nonetheless, whilst we still receive more written compliments than complaints in our Water and Wastewater Business Units, we experienced a substantial increase in the total number of written complaints received from our customers in 2015-16. This increase was partially offset by a reduction in telephone complaints and is mainly attributable to the implementation of our new billing system during the course of the year resulting in administrative errors, affecting customers' payment arrangements. We have corrected these errors and apologised to the customers affected, whilst we continue to address the underlying causes so that, in the longer term, our customers will see the full benefits from this billing system.

With levels of bad debt for this year slightly lower than last year at £27 million, our focus next year will be pursuing this debt as covering the cost of those customers who do not pay means that we need to add around £20 extra on customers' annual bills. However, this will not detract in any way from the work we do in promoting our tariffs to help those customers in circumstances which make them vulnerable. With nearly 55,000 customers already receiving help to pay their water bills, our research shows that 75% of the wider customer-base support our plans to increase this to 100,000 by 2020—but only if this is supported by increased efforts to recover debt from those customers who are refusing or avoiding paying their bills.

COMPLIANCE

Over the past 12 months, we have delivered our best ever overall performance against the compliance measures used to ensure that we are doing a good job in protecting public health and enhancing our natural environment. This is highlighted by the continuing high quality of our drinking water, with 99.98% of tests in 2015 being passed.

We still recognise that we need to improve our performance in some areas of our drinking water network, especially around key measures such as interruptions to supply and customers contacting us about the colour, odour and taste of their water supplies. Some of these issues have been caused by operational incidents which are beyond our control, but we are now starting a major investment programme, informed by a better understanding of our network through hydraulic monitoring and modelling (as outlined on page 29), so that we can ensure that all customers receive the service they expect and deserve.

In terms of our wastewater services, this has seen our very good performance in areas such as internal sewer flooding and pollution, where we have equalled our best year ever with only two pollution incidents deemed 'serious' by Natural Resource Wales' categorisation. This has been achieved whilst the self-reporting of pollution incidents was at its highest level ever at nearly 74%, moving us to the upper end of the industry 'league table'.

We continue to work hard and build our relationships with the company's key regulators in all areas.

COST AND BILLS

At £1.7 billion over the five years until 2020, this period will see our largest ever investment to maintain and improve an extensive network of assets.

We know that it is important that we continue to deliver real value for money for our customers and build on our track record so that bills remain affordable to customers. We are pleased therefore that we kept the annual price increase for 2016-17 below the rate of RPI inflation for the seventh consecutive year and we now remain the only water and sewerage company in England and Wales on track to deliver a decade of below RPI inflation prices by 2020.

All this is driven by our strong balance sheet and unique ownership model which means that we can not only do much more for customers than would otherwise be possible but we can take a longer-term perspective in investing to deliver our vision for the benefit of future, as well as current, customers. We are considering how best to use the £32 million of 'value' which our unique structure has created this year for the benefit of our customers.

In order to help inform the Board's future decisions about how this source of funding is used, we will be engaging with customers over the summer of 2016 to ask them for their views on how such value should best be returned and what is the right balance between options such as lower bills, support for those struggling to pay, environmental or community projects and improvements to services for those facing repeat problems such as discoloured water or low water pressure.

COMMUNITY

We know the responsibility that we have to ensure our investment supports the communities we serve and the environment around us, whilst also facilitating economic development and growth.

We are therefore pleased that our Developer Services Team topped Water UK's new national league table for measuring performance of new connections to our drinking water and wastewater networks.

Our services are now informed by direct feedback from our customers through platforms such the 15th Developers' Forum that was held in September 2015, with over 100 attendees from the house builders and developers in our area and we welcome the fact that we became a statutory consultee for planning applications in Wales in March 2016.

We are also pleased to have played a key part in early 2016 in securing the 999 year lease of Lisvane and Llanishen reservoirs in Cardiff and safeguarding what is a much valued asset for us and the local community. This acquisition will help strengthen the resilience of the water supply we provide to customers in the capital city but also offers us an opportunity to work with local residents to develop a community facility that builds on the great success of our £2.5 million Visitor and Watersports Centre at our Llandegfedd reservoir, Pontypool, which was officially opened in March 2016.

LONG-TERM

As we have no shareholders, our sole focus remains on making decisions that benefit our customers – both now and for future generations. Our customers drive our thinking and our plans and we welcome the important contribution made by our Customer Challenge Group in challenging our customer engagement and research programme to ensure that we deliver the best possible outcomes for customers. I would like to thank Diane McCrea as Chair for her excellent stewardship of this independent forum over the past three years and look forward to working with her successor, Peter Davies, who was appointed Chair in February 2016.

To help us meet the changing needs and expectations of customers and manage the wider challenges facing our industry, such as climate change, we know that we will need to innovate and think differently about how we provide our services. This is why we are looking beyond the UK and forging best practice partnerships with international counterparts at the Danish Water and Wastewater Association and Oasen Drinkwater in the Netherlands. We also hosted our third annual Innovation Conference in January 2016 which enabled us to bring together Government, regulators, water industry experts, as well as national and local companies, to help us to advance our innovation agenda with initiatives such as our RainScape scheme for sustainable urban drainage. This award winning approach uses green infrastructure in Llanelli and Gowerton to remove surface water from our sewers and helps reduce the risk of local sewer flooding. It was a pleasure to welcome HRH Prince Charles to Llanelli in February this year to demonstrate how this approach is making a positive difference to the communities that we serve and the wider environment.

COLLEAGUES

Finally, we could not have achieved any of the progress that has been made without the dedication and enthusiasm of our colleagues. They are the foundation of our success. This has been proven time and time again over the past 12 months with some of the most extreme weather conditions and an unprecedented number of incidents such as significant burst water mains and risks to water supply such as oil spills and changing raw water conditions.

We operate in a potentially dangerous environment and so we take our responsibilities to protect our colleagues, our contractors and our customers extremely seriously and continue to embed a strong health, safety and welfare culture in all our operations by providing strong leadership, sound engagement, building confidence and measuring performance. As part of our latest annual Employee Engagement Survey in November, it was therefore pleasing that 93% of Welsh Water colleagues recognised that the company takes Health and Safety seriously.

Everyone in Welsh Water is involved in our plan to deliver Customer-led Success which we are confident will enable us to become even more customer focussed across all aspects of our business over coming years. With 90% of colleagues already recognising that Welsh Water puts its customers first, this belief is driving a change in culture that will ensure that we achieve our vision to earn the trust of our customers every day.

Finally, I would like to thank Robert Ayling for his enormous contribution to the company over eight years as a Non-Executive Director, six of them as Chairman of the Board. We will greatly miss his contribution in supporting and effectively challenging the management team during a period of significant change for the Group. We look to welcoming his successor, Alastair Lyons, whose appointment as Non-Executive Chairman-elect will be subject to Member approval at the 2016 AGM.

C.A. Jones

Chris Jones
Chief Executive

3 June 2016

EARN THE
TRUST
OF OUR
CUSTOMERS
EVERY DAY

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OUR VISION

Because we provide the most essential of public services our vision is:
To earn the trust of our customers every day

One of the major advantages of our unique ownership model is that it allows us to focus on this single, clear goal and to take a longer-term perspective for the benefit of future, as well as current, customers.

OUR STRATEGY

This vision is underpinned by a clear strategy which we believe will help us deliver the best possible service to our customers over the next five years at the most affordable price whilst also responding to the changing external environment.

The key elements of our strategy are:

1. To be the best in our core business which is to provide water and wastewater services to over three million people
2. To seek profitable opportunities for any commercial services which will help us deliver more value to our customers
3. To promote our achievements to ensure that customers and stakeholders are aware of who we are, what we do and how we do it
4. To be recognised as a truly innovative company in how we provide our services and engage with customers

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WHAT WE DO

We provide a **safe, reliable and affordable water** supply

We serve most of **Wales, Herefordshire** and parts of **Deeside.**

We do this by **abstracting, treating and distributing high quality drinking water** to the three million people that rely on our essential service.

We also **collect, treat and safely dispose of wastewater** whilst protecting public health and the environment around us.

We use part of the wastewater process to **generate power** that is used to run some of our sites.

But **there's more to the story...**

Welsh Water is different from other water companies. **We don't have shareholders.**

Every penny we make is retained in the business to help keep bills down, improve our services and protect the environment.

We think it's a **much better way** of providing the most essential of public services.

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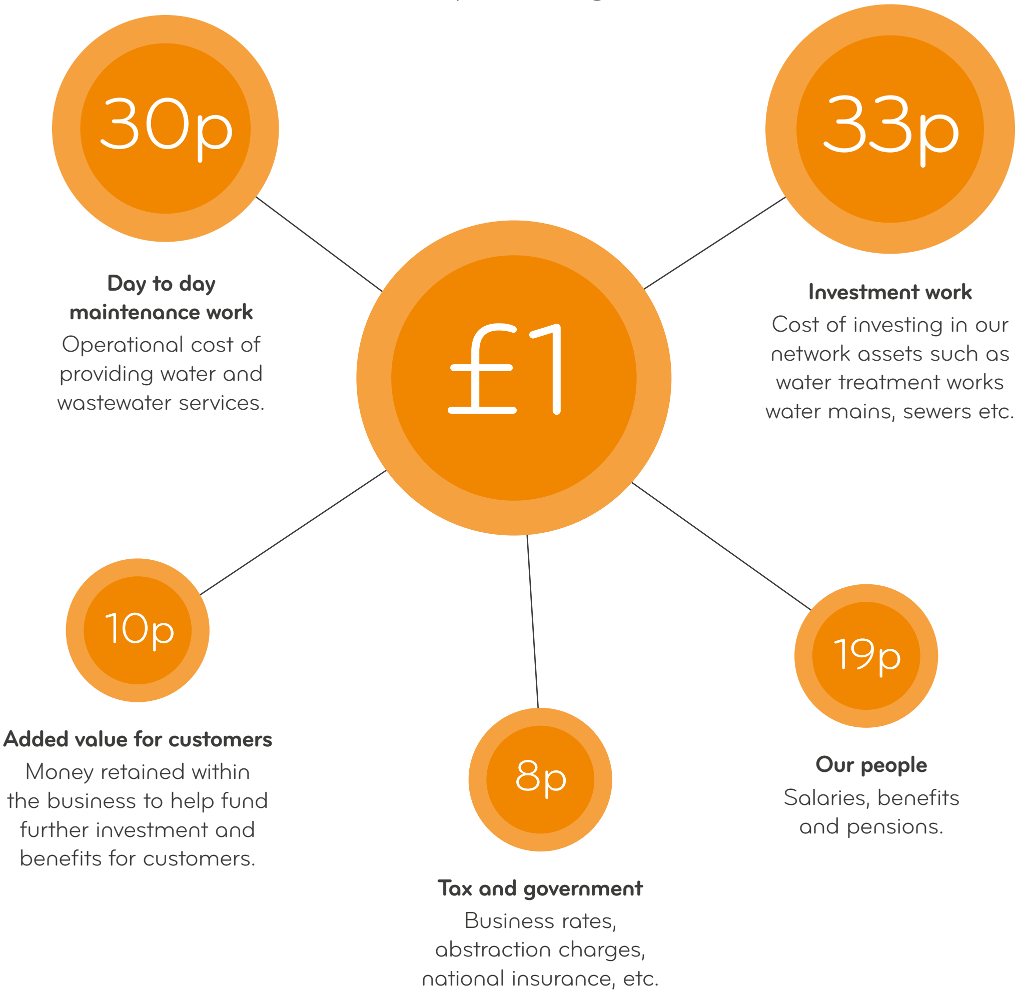
WHERE DOES YOUR MONEY GO?

Where each
£1 of your bill goes




HelpU
WaterSure Wales
Customer
Assistance Fund
Water Direct

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THE VALUE WE BRING

BEING A GOOD NEIGHBOUR

With a record £1.7 billion capital investment programme planned between 2015-2020, 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, environmental and archaeological organisations, households and businesses to find the best solution. We have completed 175 capital investment schemes in 2015-16 in communities across Wales, Herefordshire and Deeside investing £116 million in our water services and £136 million in our wastewater services.

We're also doing more than ever to keep residents and communities informed about work in their area through information events, drop in sessions, door knocking and meetings with local interest groups. In 2015-16, we hosted over 50 information events and drop-in sessions for our customers, sending 125,000 letters and over 600,000 texts to warn them about our planned and emergency work.

We try to ensure that we are open and honest in every one of the million calls we receive a year and the 3,600 website contacts every day.

SUPPORTING CUSTOMERS WHO STRUGGLE TO PAY THEIR BILLS

Our unique not-for-profit model means that we can do more for our customers and this is why we already help nearly 55,000 customers through our different social tariffs, more than any other water company. However, we want to help even further and have increased the annual household income threshold on our HelpU tariff from £12,500 to £15,000.

ALWAYS PUTTING CUSTOMERS FIRST

Whilst we will always try do our best for our customers, it's important that our plans are scrutinised and challenged by others.

In 2015, we decided to place the Customer Challenge Group on a permanent footing in early 2016. This independent forum, which played a key role in advising and challenging us on how we engaged with customers as we developed our most challenging business plan yet. The Group will continue to play an important role in challenging our customer research programme to ensure we deliver the best possible outcomes for customers.

CUSTOMERS

We work with customers in local communities so that they can help us deliver improved services for everyone. These behavioural change campaigns include:

Let's Stop the Block

Sewer blockages caused by the wrong things being flushed down the toilet or poured down the kitchen sink cost our business around £7 million every year. These can flood homes and pollute local streams. The award winning Let's Stop the Block campaign challenges customers to think before they flush. This includes a film (LooLoos nightclub) featuring troublesome characters that cause blockages and has received over 100,000 YouTube views.

Love Dŵr

Asking our customers to reduce their water usage is a very difficult task here in Wales. It rains a lot and people don't often consider how each drop needs to be treated and pumped to homes and businesses, and then cleaned and pumped again after they've used it. Love Dŵr begins the task of encouraging customers to enjoy using tap water, but not waste it.

Reservoir Safety
Our reservoirs are great places to enjoy organised activities but all too often people are tempted to risk taking a swim which can lead to tragic consequences. Our annual Reservoir Safety campaign highlights the hidden dangers of reservoirs, with freezing cold deep water, underwater machinery and strong currents all mean that these reservoirs are dangerous!

Summer shows
Every summer, we take our campaigns on the road, going to national events such the Royal Welsh Show, National and Urdd Eisteddfods and Hay Festival to reach around 15,000 customers in a fun and innovative way.

FUTURE CUSTOMERS

We know we have a part to play in helping our future customers understand how they can help use water efficiently and protect the environment.

Discovery Centres
We have four Discovery Centres (see page 100) visited by over 14,000 children every year. They offer a range of fun, practical activities so children and families can experience the world of water at first hand, whilst focusing on Welsh Water's key responsibilities to provide high quality water supply and take away wastewater and return it to the environment safely.

Our outreach programme involves our four Welsh Water teachers in visiting primary and secondary schools across our operating area to deliver assemblies and workshops on campaigns to around 31,000 pupils every year.

We've also launched a dedicated website as a resource tool for the Welsh Baccalaureate which focusses on helping young people develop a range of transferable skills which businesses are looking for. It helps showcase our campaigns, promotes career options available in our industry and prepares the future workforce with the skills required in the workplace.

Working with young people
Our work with the 'Business Class' programme enables us to work with young people to improve their understanding of the world of work, their awareness of career choices and employability skills as well as raising their expectations. Since 2013, we have been working with Bishop Hedley Catholic School in Merthyr Tydfil supporting pupils with mentoring sessions, tips for writing their CVs, and supporting teachers with leadership workshops. We are helping the Welsh Government roll this scheme out further from 2016 by increasing our support for schools in other target areas.

We are proud to support The Prince's Trust which helps young and disadvantaged people in Wales work towards securing employment and a better quality of life. Since 2010, 48 of our trainees have taken part in the annual Million Maker's Challenge Wales. This is a fundraising challenge which sees teams of employees from companies across the UK competing to raise at least £10,000 or more over a period of six months. To date, we have raised just over £42,000.

ACCESS AND RECREATION

We are the custodian of a national asset in Wales—some 40,000 hectares, or 99,000 acres 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 different sporting, recreational and leisure facilities.

In February 2016, we officially opened our £2.5 million recreational site at Llandegfedd Reservoir, Pontypool offering water sports, fishing and walking, as well as a visitor centre. The site also offers sailing courses for wheelchair users and other less able bodied customers and is accredited as being Dementia Friendly, which means colleagues are trained and have facilities to help visitors with dementia and their carers.

In July 2015, our 45,000 acre Elan Valley Estate in the Cambrian Mountains achieved International Dark Sky Park status and become the first privately owned, but publicly accessible park in the world to do so.

COLLEAGUES

We always encourage colleagues who want to help others. As a business, we are proud to support WaterAid. This is 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 colleague volunteers, partners and suppliers across the business, our colleagues and customers have now raised over £4 million for WaterAid since 2001.

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MEET OUR BOARD

Standing left to right: Peter Perry, Peter Bridgewater, John Warren, Robert Ayling, Graham Edwards, Professor Stephen Palmer, Chris Jones
Seated left to right: Joanne Kenrick, Menna Richards, Anna Walker (Alastair Lyons joined the Board on 1 May 2016)

BOARD OF DIRECTORS

Robert Ayling
Chairman

Peter Bridgewater
Finance and Commercial Director

Graham Edwards
Non-Executive Director

Chris Jones
Chief Executive

Joanne Kenrick
Non-Executive Director
(appointed with effect from November 2015)

Professor Stephen Palmer
Non-Executive Director

Peter Perry
Chief Operating Officer

Menna Richards
Senior Independent Director

James Strachan
Non-Executive Director
(stepped down in July 2015)

Anna Walker
Non-Executive Director

John Warren
Non-Executive Director

Alastair Lyons
Non-Executive Director
(joined the Boards of Glas Cymru (Holdings) Cyfyngedig and Dŵr Cymru Cyfyngedig on 1 May 2016)

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OUR INDUSTRY AND REGULATORS

The water and wastewater industry in England and Wales must comply with substantial domestic and European Union regulation, placing significant statutory obligations on water and wastewater companies with regard to, among other factors, the quality of drinking water supplied; wastewater treatment; the effects of our activities on the natural environment; the levels of services we provide and the bilingual choice we offer to customers who wish to communicate with us.

Our regulators include:

The Health and Safety Executive
The national independent regulator for work-related health, safety and illness.

hse.gov.uk

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

wales.gov.uk

Department for Environment, Food and Rural Affairs
The UK Government department responsible for wastewater policy in relation to Wales.

gov.uk/defra

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.

ofwat.gov.uk

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

dwi.gov.uk

The Consumer Council for Water
An independent body established to represent the interests of customers relating to price, service and value for money. It also investigates customer complaints about water quality.

ccwater.org.uk

WATRS
The independent adjudicator for disputes between customers and the water and sewerage companies of England and Wales.

watrs.org

Natural Resources Wales
Environment Agency
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.

naturalresources.wales
gov.uk/ea

Welsh Language Commissioner
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.

comisiynyddygymraeg.cymru

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PERFORMANCE SUMMARY: 2015-16

To measure performance, the Glas Cymru Board set targets independently for Welsh Water that are based on industry benchmarks and to judge where we stand compared with the best performers in the sector.

These targets are a combination of regulatory targets as agreed by the regulator Ofwat in our Business Plan for 2015-20 and also a number of additional targets which make up our overall Performance Scorecard.

We have met nearly all of the targets agreed with Ofwat in our Final Determination with the exception of mean zonal compliance, customer acceptability and treating wastewater. Full details of performance are included in our annual Performance Report, published in July.

	Measures of Success	14/15	15/16	2015/16 vs previous year	Ofwat Target met or failed
A1a	Safety of Drinking Water (% compliance)	99.98	99.98		N/A
A1b	Safety of Drinking Water (% Mean zonal compliance)	99.94	99.96		F*
A2	Customer acceptability (contacts p/1,000 pop)	3.53	2.91		F*
A3	Reliability of Supply	23	21.7		M
B1	Abstraction for water for use	100	100		M
B2	Treating wastewater	99.1	98.6		F*
B3a	Preventing pollutions (cat 1,2&3)	122	112		N/A
B3b	Preventing pollutions (cat 3 only)	117	110		M
C1	Responding to climate change	1,247	1,531		M
C2	Carbon footprint	60	97		M

D1	SIM	82	83		M
D2	At Risk Customer Service	702	648		M
D3	Properties flooded in the year	265	223		M
D4a	Business Customer Satisfaction (%)	91	89.5		N/A
D4b	Non Household Customer Satisfaction (%)	89.5	88		M
D5	Earning the Trust of Customers (%)	79	81.9		M
E1	Affordable Bills (% below inflation)	-3	-1		M
E2	Help for Disadvantaged customers	49,455	54,845		M
F1	Asset Serviceability	Stable (x4)	Stable (x4)		M
F2	Leakage	180	180		M
F3	Asset Resilience (Water/Waste Water)	83.6/ 74.8	86.8/ 73.6		M

A definition of each Measure of Success can be found in Appendix 1 on page 151.
*The final determination target:
– safe drinking water (mean zonal compliance) 99.98%
– customer acceptability 2.54%
– treating wastewater 100%

10

OUR PERFORMANCE IN DETAIL: 2015-16

We continue to measure our performance year on year, and by working with customers and stakeholders, we have identified the eight essential outcomes that we need to achieve, if we are to be a truly sustainable business that can continue to earn the trust of our customers in the decades to come.

These eight outcomes feature consistently in our business planning - both in the short and long-term.

Each outcome is underpinned by several Measures of Success that help us measure how we are performing so that we can deliver improving high quality service and value for money for customers, both now and for future generations.

OUTCOME 1:
HIGH QUALITY DRINKING WATER

You will have complete confidence that your drinking water is safe, reliable and tastes good

OUTCOME 2:
PROTECTING THE ENVIRONMENT

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

OUTCOME 3:
RESPONDING TO CLIMATE CHANGE

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

OUTCOME 4:
AFFORDABLE BILLS

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

OUTCOME 5:
CUSTOMER SERVICE

We will continue to provide our customers with excellent customer service

OUTCOME 6:
LOOKING AFTER OUR ASSETS

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

OUTCOME 7:
DEVELOPING OUR PEOPLE

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

OUTCOME 8:
AN EFFICIENT BUSINESS

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

OUTCOME 1:
HIGH QUALITY DRINKING WATER

YOU WILL HAVE COMPLETE CONFIDENCE THAT YOUR DRINKING WATER IS SAFE, RELIABLE AND TASTES GOOD

67

WATER TREATMENT WORKS

91

RESERVOIRS

27,500

KMS OF WATER MAINS

AROUND

700,000

TESTS A YEAR IN TOTAL CARRIED OUT ON WATER SUPPLIES

“Supplying over 800 million litres (enough to fill 320 Olympic size swimming pools) of high quality, clean tap water to our customers every day is our most important responsibility. It is why we are here and we are proud to make such a vital contribution to public health.

Ian Christie
Managing Director, Water Services”

Highlights

In 2015, we invested £110 million in our water treatment works and distribution system so that we could continue providing a high standard of drinking water to over three million customers. The water quality performance in 2015 was our best ever in terms of the total number of failures with only 47 of the 238,393 samples taken failing to meet the required 41 standards for parameters included in the Water Supply (Water Quality) Regulations 2010 Wales.

Fewer customers contacted us regarding the taste, odour and appearance of their drinking water reducing with 2.91 contacts per 1,000 customers in 2015 compared to 3.53 in 2014, although this remains an area of focus for improvement for the coming year.

Challenges

We need to improve performance in terms of interruptions to supply, and over the past 12 months, we have had to manage several large diameter, high pressure burst water mains which has adversely impacted this measure, including; burst trunk water main in Pontypridd in July; burst water mains in Llechryd in Pembrokeshire and Cross Keys near Caerphilly in November and also in Trapp, Carmarthenshire in February. The safety of our people undertaking these repairs is always our top priority and despite these challenging incidents, our engineering innovation and use of temporary supplies meant that the average time customers were without water was 22 minutes, marginally better than 23 minutes in 2014 and hitting target.

Looking Ahead

We know that strengthening the resilience of our drinking water network is key, and in 2015, we secured planning permission to rebuild Bryn Cowlyd Water Treatment Works in the Conwy Valley, North Wales. This £30 million investment will be completed in 2018, will serve around 90,000 customers and will be the biggest single investment in a water treatment works during this regulatory period. In addition, we bought two important reservoirs in Cardiff in early 2016 and this will help us support our water resource availability in the area for future population growth and secure the reservoirs from future development for the people of Cardiff.

£80 MILLION OF PIPE IMPROVEMENTS OVER THE NEXT FOUR YEARS

OUTCOME 1:
HIGH QUALITY DRINKING WATER
CASE STUDY

ZONAL STUDIES INVESTMENT PROGRAMME

To make a lasting improvement to the service, we need to move from treating symptoms to targeting the underlying causes of the problem. To achieve this and address issues such as discolouration and interruptions to supply, we are currently reviewing our performance in our 'worst performing' Water Quality Zones where our service has not been as good as it should to our customers.

We are combining hydraulic modelling (measuring how water travels through the network) with innovative root cause analysis tools to get to the bottom of why our customers are contacting us and then fixing the cause. This investment of around £80 million of pipe improvements over the next four years will enable us to improve the drinking water quality of customers.

OUTCOME 2:
PROTECTING THE ENVIRONMENT

WE WILL SAFEGUARD A SUSTAINABLE ENVIRONMENT THAT WE ARE PROUD TO HAND ON TO FUTURE GENERATIONS

Highlights

Our sewer network has continued to perform well over the past 12 months despite the extreme weather conditions. Notwithstanding these challenges, the number of properties subjected to internal sewer flooding fell this year to 223 (2014: 265) and we had two serious pollution incidents in 2015 (2014: 4) which equals our best ever performance for this measure. Our aim is always to understand the cause, whether the incident was predictable (and therefore preventable) and whether our response could be improved.

In 2015, we were delighted to see Wales retaining its position as having the best bathing waters in the UK with 41 beaches being awarded Blue Flags. The figure is up on 2014 and the results are also significant considering Wales achieved over 30% of the UK's Blue Flags on 15% of the UK's coastline.

> Our relationship with the natural environment is a vital element of our business, and so ensuring that we act in a responsible and sustainable way is an essential part of how we work.
>
> **Steve Wilson**
> Managing Director, Wastewater Services

OPERATE OVER
800
WASTEWATER TREATMENT SITES

AROUND
3,500
COMBINED SEWER OVERFLOWS

36,000
KMS OF SEWERS– ENOUGH TO STRETCH TO AUSTRALIA AND BACK

DEAL WITH AROUND
2,000
BLOCKAGES A MONTH IN OUR SEWERS

Challenges

The performance of our wastewater treatment works is critical to ensure that the water we return to the rivers, streams and sea is of the highest quality. We have over 800 wastewater treatment works. In 2015, we had eight wastewater treatment works not meeting these requirements (2014: 5) with 21 works deemed to be "at risk" (2014: 20). Following investigations for these sites, defective equipment has been replaced and operational procedures tightened.

The exceptionally heavy rainfall last winter led to a high volume of flows in our sewerage network and, combined with surface water in some areas, this resulted in heavily diluted wastewater coming up from some manholes across parts of our network. Whilst we will always prioritise those customers who suffer internal flooding, we are also mindful that external flooding is also an issue for local communities. Misuse of the sewers through the disposal of fats, oils and grease and wet wipes into our network is a key cause of blockages and sewer flooding. This is why we continued with our award winning 'Let's Stop the Block' campaign to raise customer awareness about the consequences of sewer misuse by launching it in two other 'hotspot' areas for blockages, namely Milford Haven in South West Wales and Cowbridge in South East Wales.

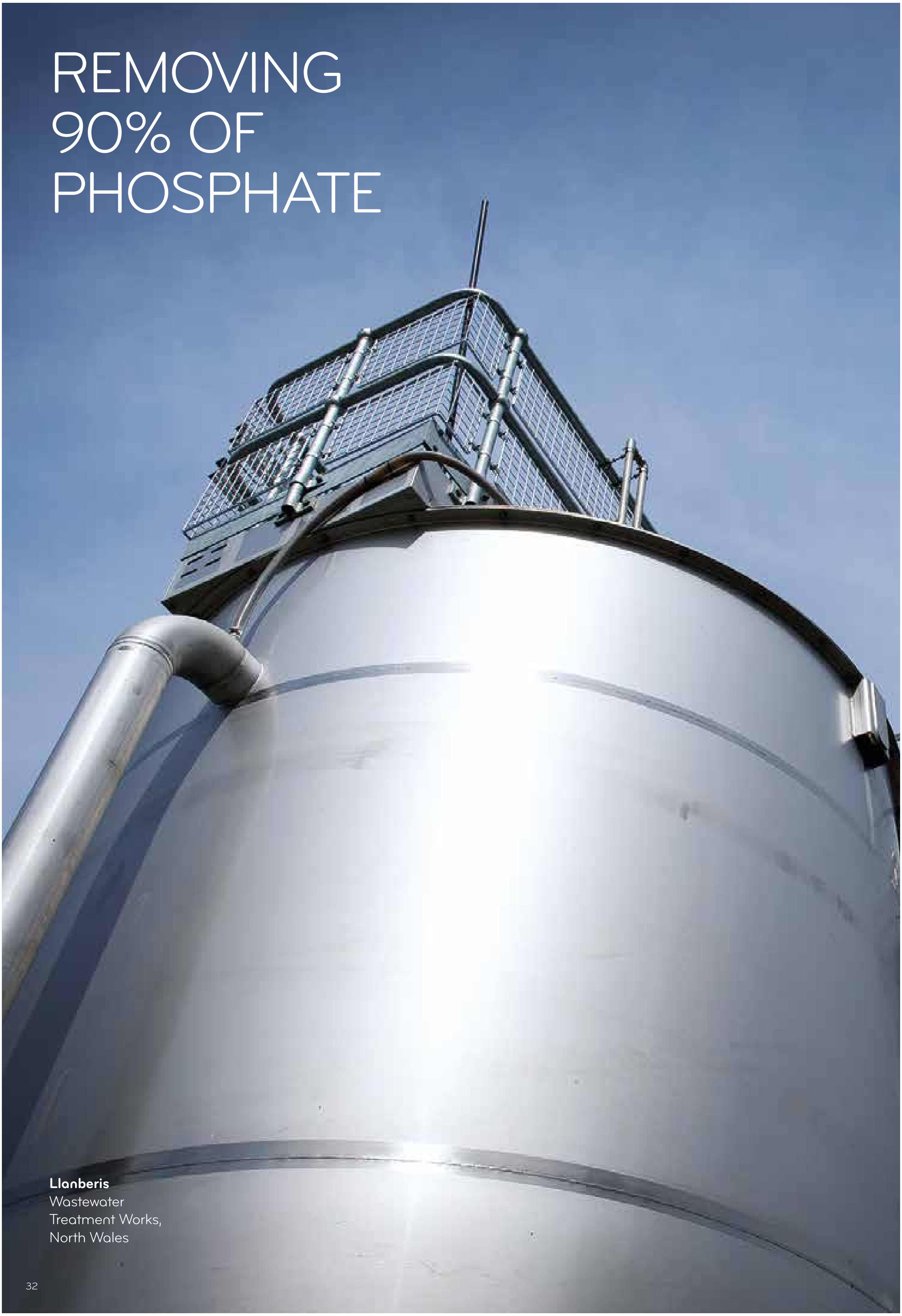
Looking Ahead

To help us protect public health and local communities from flooding, our network (including pumping stations, combined sewer overflows and wastewater treatment works) contains a series of relief valves that are designed to release excess storm water into the environment during very wet weather. Over the past 12 months, we have installed remote monitoring equipment at over 500 of these high priority sites to monitor their performance and measure their impact on the environment. We plan to install such monitoring equipment on all our sites by 2020.

Whilst the quality of bathing water is affected by factors other than our operations (e.g. pollution from water running off roads and farmland), we will invest more than £8 million over the next two years in scientific investigations at 49 sites around the Welsh coastline. The project, which is the largest programme of coastal investigation work ever undertaken in Wales, will provide us with tools to help us all better understand and protect Wales' coastal waters for years to come.

We are also on course to adopt over 500 private pumping stations by 1st October 2016. This takes responsibility away from our customers and will help us manage our wastewater network more effectively.

REMOVING 90% OF PHOSPHATE



Llanberis
Wastewater
Treatment Works,
North Wales

OUTCOME 2:
PROTECTING THE ENVIRONMENT
CASE STUDY

LOWERING PHOSPHOROUS LEVELS

We routinely test levels of phosphorous and other metals in the water at our wastewater treatment works. While the level of phosphorous in the water we release into the environment does not pose a risk to people, it can be harmful to any wildlife in the watercourses if phosphorus levels are too high. Standards are ever tightening with even stricter standards expected in the next five to 10 years.

We trialled a new technology to help us achieve lower levels of phosphorous and iron in the water at our Llanberis Wastewater Treatment Works, in North Wales. The Blue PRO technology uses a sand filter system, removing phosphorous by adsorption and filtration. The trial had excellent results, removing 90% of total phosphate, whilst lowering iron levels. This trial forms part of work across the business to upgrade our treatment works to meet phosphorus consent. Last year, we turned this into a permanent solution and invested £25 million in several wastewater treatment works including Gowerton, Llanelli, Pontyberem and Parc y Splott in Carmarthen to reduce total concentration within final effluent discharge and ultimately protect our local environment.

OUTCOME 3:
RESPONDING TO CLIMATE CHANGE

WE WILL ADAPT OUR ACTIVITIES TO DEAL WITH THE POTENTIAL EFFECTS OF CLIMATE CHANGE, WHILST REDUCING OUR OWN CARBON FOOTPRINT

> Climate change remains one of the biggest challenges and risks facing our company. All the main impacts—temperature change, more intense rainfall, changing rainfall patterns, and rises in sea levels—directly affect our company's activities.

Tony Harrington
Director of Environment

50

SITES AT WHICH RENEWABLE ENERGY IS GENERATED WHICH INCLUDE SOLAR, HYDRO AND ANAEROBIC DIGESTION

1 MILLION

PEOPLE'S WASTEWATER TREATED AT CARDIFF WWTW WITH THE ENERGY GENERATED ON-SITE MEETING 50% OF THE SITE'S NEED.

Highlights

Our renewable energy generation has risen steadily and this year saw us generate 97GWh (2014: 60GWh)—enough to power nearly 31,000 homes. Our renewable energy now represents more than 20% of the volume of power we consume and we have committed to increase this to 30% by 2020.

Over the past 12 months, we invested £8 million in renewable energy and energy efficiency projects—all of which help us become more efficient and reduce our operating cost. This in turn helps keep bills low, which we know is important to our customers. Projects include the installation of a hydro generation scheme as part of the £28 million upgrade of Dolbenmaen Water Treatment Works in Gwynedd. The scheme is already generating 0.69 GWh per year of energy which is enough to provide nearly 58% of the energy needed to operate the site. At our Felindre Water Treatment Works near Swansea, we also completed the installation of more than 3,000 solar panels which are generating enough energy to power 220 homes.

We continue to invest in RainScape urban drainage projects to stop storm water from entering the sewerage system, reducing flooding and environmental risks in the Llanelli area. Through RainScape, we now redirect nearly 2 million litres of surface water per day from our network during wet weather—which is equivalent to around one Olympic size swimming pool every day.

Challenges

We are committed as a company to protecting the environment in our care and a key feature of this is managing risks to biodiversity which continued to be a challenge over the year. This has included tackling species of plants that are not native to our country, including Japanese knotweed and Himalayan balsam. To help tackle these problems, we have committed funding to a collaborative project in North Wales based around the Dee River. This is a catchment-wide project aimed at coordinating the control and monitoring of invasive species within the Dee catchment area to ensure our native wildlife is protected for the future.

Looking ahead

As well as creating a more resilient network, we will continue our drive over the next twelve months to generate even more energy from renewable sources on our sites by investing a further £10 million. Such schemes include the construction of single wind turbines at our Swansea Wastewater Treatment Works and Nash Wastewater Treatment Works in Newport—both of which will reduce the reliance of the works on energy from the grid. This will build on the extensive work being undertaken by our energy team who are monitoring power performance at our sites and undertaking energy audits and modelling to ensure that we can continue to meet our ambitious performance targets. In the longer term, we are scoping the feasibility of constructing regional sludge treatment centres which will help build on the current success of our anaerobic digestion plants in Cardiff and Afan in South Wales by increasing the amount of energy generated from sewage sludge on our sites. By 2020, we aim to create 100GWh of renewable energy each year.

This will help Welsh Water reduce its carbon footprint and keep our energy costs down, so helping to keep bills low.

10,000 SOLAR PANELS

2.5GWH OF ELECTRICITY A YEAR

ENOUGH ENERGY TO POWER **7,000** HOMES

Five Fords Wastewater Treatment Works, North Wales

OUTCOME 3:
RESPONDING TO CLIMATE CHANGE
CASE STUDY

FIVE FORDS ENERGY PARK

During 2015-16, our investment to transform our Five Fords Wastewater Treatment Works in Wrexham into the industry's first multi-sourced Energy Park moved a step closer, with the completion of the installation of nearly 10,000 solar panels. The panels generate a total of 2.5GWh of electricity a year, which is enough to power 7,000 homes.

During the year, a gas to grid plant was also commissioned at the works to enable gas created during the waste treatment process to be upgraded to bio-methane gas and then injected into the local gas distribution network. The project received national recognition when it won the Environment Award at the Institute of Water Innovation Awards, Wales.

OUTCOME 4:
AFFORDABLE BILLS

OUR SERVICES REPRESENT GOOD VALUE FOR MONEY FOR OUR CUSTOMERS, WITH AN EFFECTIVE RANGE OF HELP FOR THOSE STRUGGLING TO PAY

£1.20

AVERAGE DAILY COST FOR OUR HOUSEHOLD WATER AND WASTEWATER SERVICE

"

As a company owned on behalf of its customers and providing services to some of the most deprived areas of the UK, we have always been keen to help those customers who have trouble paying their water and sewerage bills.

Julia Cherrett
Managing Director, Retail Services

"

Affordability is a particular concern in our region. Ofwat's research in December 2015 indicated that 32% of our household customers spend more than 3% of their income on water and sewerage services (23% in England).

Highlights

In February, we confirmed that our customers would see no increase in the average household bill for 2016-17, making this the seventh consecutive year that the average household bill will be increased by below the rate of RPI inflation. We remain the only water company in England and Wales on course to achieve a decade of below inflation price increases by 2020.

Our new social tariff, HelpU, which offers annual savings of up to £250 (or 55%) on the average household bill, is now available to customers whose annual household income is less than £15,000 per year (increased from £12,500). We are actively promoting practical ways to help customers struggling to afford their water bills and have introduced some new initiatives to support our customers.

Challenges

Our debt collections team continues to work hard to reduce the level of bad and doubtful debt and our charge for 2015-16 fell to £27 million (2014-15: £30 million). To help with this work, we implemented data sharing with credit reference agencies during the year. This means that the credit record of customers who do not pay their water bill is adversely affected, while paying the water bill improves the credit record. Our main risk to debt collection is with those customers who we have been unable to contact and so we continue to implement a range of 'early start' initiatives to reconnect with such customers. For example we introduced texting in August 2015 as a prompt for payment early on in the collection cycle. This is proving successful with around 63,000 texts sent every month in the first six months.

Looking Ahead

Around 3,000 customers have signed up for the HelpU tariff and our challenge is to encourage more households that could benefit to discuss their circumstances with us. To help address this, we implemented a pilot programme in North Wales visiting over 1,000 homes where customers are behind with their water bill and where we have been failing to engage them in a repayment plan. Based on what we learned, we are now establishing a field based team. Their aim will be to raise awareness of our social tariffs and inform our wider engagement strategy for promoting HelpU. We have also signed a memorandum of understanding with the Energy Saving Trust, who now provide us with details of contacts they have received from people who may benefit from one of our assistance schemes.

EXEMPLAR PROJECT IN WALES
WINNER

HELPING SCHOOLS BECOME MORE WATER EFFICIENT

OUTCOME 4:
AFFORDABLE BILLS
CASE STUDY

91%
OF SCHOOLS BENEFITED FROM EFFICIENCY DEVICES

SAVING
67,000
LITRES OF WATER PER DAY

EQUIVALENT TO
840 BATHS
PER DAY

WATER EFFICIENCY LESSONS

The latest independent research into customer attitudes by CCWater (August 2015) showed that 77% of our customers think that our water and sewerage service are affordable. We always try to provide the best possible value for money and we helped a number of local schools become more efficient in terms of their water usage during the year. After identifying those communities in our supply area which are classed as water stressed, schools were offered water efficiency lessons and workshops by a Welsh Water teacher.

This was done whilst we conducted an audit and reported back to the school assembly so they could see what savings could be made by fitting water efficient devices on taps and toilets in their school. We fitted the devices free of charge with 91% (64 out of 70) schools visited benefiting from the devices which save 67,000 litres of water or 840 baths, per day. In addition, many thousands of children are now more aware of the environmental need for water efficiency. We are proud that this collaborative initiative won the Waterwise UK 'Exemplar Project in Wales' award in March 2016.

OUTCOME 5:
CUSTOMER SERVICE

WE WILL CONTINUE TO PROVIDE OUR CUSTOMERS WITH EXCELLENT CUSTOMER SERVICE

“

Customers are the heart of our business and we'll always try to put them first with everything that we do. By investing time in improving our services and developing our colleagues, we aim to offer each and every one of our customers an exceptional service—sometimes under difficult circumstances—every time they deal with us.

Alun Shurmer
Director of Customer Strategy and Communications

”

1 MILLION

CALLS A YEAR RECEIVED FROM CUSTOMERS

600,000

TEXTS SENT TO CUSTOMERS TO INFORM THEM ABOUT ISSUES WITH THEIR WATER AND SEWERAGE SERVICES

100,000

VISITS PER MONTH TO OUR WEBSITE

4,000

CUSTOMERS USED OUR WEBCHAT SERVICE DURING THE YEAR

Highlights

Our efforts in putting the interest of our customers first is being acknowledged and we were delighted to top Ofwat's Customer Service Satisfaction results for water and sewerage companies during the final quarter of 2015-16 and to come second for the whole year. The survey results demonstrate our commitment to doing things right first time for our customers.

Listening to our customers is a priority and this year we took this to a new level with the introduction of 'Rant and Rave'. The system provides customers with the opportunity to provide immediate feedback on the service they received. Over 43,000 surveys have been conducted since its introduction in 2015 with the findings already providing invaluable information on areas where further improvements can be made, such as keeping customer informed of progress in resolving their enquiry.

Challenges

The implementation of the new billing system for our 1.4 million customers has continued over the course of the year. While the system is now fully operational, some process issues during roll-out did lead to an increase in the number of billing related complaints. While the system issues have now been resolved, the number of written complaints (including emails) received for the year has increased significantly by 4,000 (to 7,128) compared to 2015. However, this increase reflected in part changing customer behaviour as there was a 19% reduction in the number of telephone complaints compared to the previous year.

Looking ahead

Improving and enhancing the customer experience when they make contact will form a cornerstone of our activity over the coming year. This will include extending a range of online services to customers and the launch of My Bill which will provide customers with the option to receive and pay their bill online.

Our business customers will also be at the centre of improvements we are planning to deliver over the coming year. We are broadening the range of services offered to large water users, including private network maintenance contracts and private network investment projects. These will build on the already extensive range of products offered to our business customers, including water audits and a tailored case management service.

OUTCOME 5:
CUSTOMER SERVICE
CASE STUDY

NETWORK INVESTMENT

Investing in our extensive network of sewers and water mains is essential to maintain services but can be disruptive for customers if poorly managed. Having started a six month project in Oxwich in October 2015 to renew parts of the local sewer network, we minimised the impact by setting up a Community Liaison Group and agreeing measures to help limit any inconvenience.

Ian Williams, owner of the Oxwich Bay Hotel said:

"During the work to upgrade the sewer at Oxwich, any restrictions were planned with Welsh Water to ensure minimum disturbance for our customers. We were very grateful for the understanding which we received from Welsh Water in maintaining the access for all of our customers throughout the period of the work. A job well done!"

OUTCOME 6:

LOOKING AFTER OUR ASSETS

WE WILL MAINTAIN OUR ASSETS FOR FUTURE GENERATIONS, AT EFFICIENT COST

738

CAPITAL INVESTMENT PROJECTS COMMENCED IN YEAR

44

KMS OF DRINKING WATER MAIN REPLACED

16

KMS OF SEWERS REPLACED

It's key that we know that our network of assets (reservoirs, pumping stations, treatment works, water mains and sewer networks) are working efficiently and reliably. Looking after and investing in these assets so that we can provide high quality services and protect the environment—both now and into the future—is a vital part of our business.

Peter Perry
Chief Operating Officer

Highlights

Targeted investment in our assets, processes and the people who operate them has enabled us to provide strong service to our customers through our extensive range of assets, positioning us again as one of the best performers in our sector. Over the past 12 months, we have implemented a range of investment schemes to help support the effectiveness of our assets. We have completed 175 investment schemes in 2015-16 in communities across Wales and Herefordshire, investing overall £116 million in our water services and £136 million in our wastewater services.

To help maintain high quality drinking water, we have spent £26 million in improving the robustness of our water treatment processes; £17 million on maintaining our water distribution network; £14 million on refurbishing some of our reservoir estate; £8 million on cleansing water mains and £5 million on treating the water to reduce any discolouration.

We have also improved wastewater services by investing £41 million improving processes at our wastewater treatment works and £25 million on maintaining and relining our network of sewers.

We are aware of the important role we play in facilitating economic growth across the area we serve through working with local developers, home builders and businesses. We are proud that research from Water UK has ranked us amongst the best in the industry in terms of the levels of service developers and others can expect from water companies in providing infrastructure for housing developments.

Over the past 12 months, we have invested £215 million with around 800 local suppliers and contractors installing water mains and taking responsibility for sewers that have been recently built. We have responded to over 4,500 planning applications and supported a number of flagship projects such as Swansea University's new £450 million Bay Campus and Newport City Council's new £90 million shopping centre, Friars Walk.

Challenges

Given the challenges we now face as a result of extreme weather conditions, the risks associated with such events are now a key element of our investment programme as we look to improve the resilience of our assets. We used the extreme weather conditions in December and January to review our contingency plans and scope how we would improve the resilience of our assets to cope with disruption in order to maintain services for customers and protect the natural environment now and in the future.

Our assets also include essential IT systems which could be a potential target for cyber threats which could have a significant impact on our customers and our operational assets. We manage this risk through IT security standards, ongoing monitoring of threats to our IT infrastructure as well as incident management plans.

STATE OF THE ART VALVE OPERATION TRAINING CENTRES

Sluvad
Water Treatment Works,
South Wales

OUTCOME 6:
LOOKING AFTER OUR ASSETS
CASE STUDY

WATER SUPPLIES

Preventing bursts is a key focus of our strategy to reduce discolouration and interruptions to our customers' supply and is measured as the number of 'Customer Minutes Lost'. Our own people operate the network safely to reduce the impact of high pressure surges that cause bursts. Our training to ensure our colleagues are competent has been supported through the £1 million investment of two state of the art Valve Operation Training Centres at Glascoed Water Treatment Works in North Wales and at Sluvad Water Treatment Works in South Wales. The training delivered there forms part of our 'competent inspector' development programme.

As the increased flow caused by burst water mains also tends to cause discoloured water, especially through some of our older cast iron water pipes, the centres will also aim to drive improvements in the appearance of the drinking water we supply, as measured in 'Customer Acceptability' of water. A third of water discolouration complaints in 2015 were caused by third parties inappropriately taking water directly from our network. Therefore, these training facilities will also be used to educate third parties in how water should be taken safely from our pipes.

OUTCOME 7:

DEVELOPING OUR PEOPLE

WE WILL DEVELOP A TEAM OF PEOPLE WHO WILL PROVIDE A GREAT SERVICE TO OUR CUSTOMERS

We are proud of our colleagues; their commitment, efforts and skills are central to our success and to maintaining our reputation as a leading and trusted employer and service provider to our customers.

Linda Williams
Director of Human Resources

Highlights

We continue to develop and embed a strong health, safety and welfare culture in our day to day operation, with our latest annual Employee Engagement Survey showing 96% of all our employees were clear what was expected of them with regard to Health and Safety and 93% believing that Health and Safety is taken seriously at Welsh Water.

We have delivered some of our best ever performance in terms of Health and Safety, and in 2015-16, we achieved five years of continual reductions in RIDDOR incidents (Reporting of Injuries, Diseases and Dangerous Occurrences) with 19 incidents (2014-15: 20) compared to an average of 22 incidents over the past 6 years. We have not and will not compromise on safety and the number of 'Positive Interventions' reported increased by nearly 10% to over 19,400 over the last 12 months. By increasing the number of reported 'Positive Interventions' and taking action to remove hazards and risks, research shows that this leads to a reduction in the number of reportable injuries.

Focusing on the general welfare of colleagues also led to the launch of a new programme of operational health checks in October 2015. A series of clinics were held at 14 sites across Wales and the assessments were well attended with nearly 900 colleagues being screened. Whilst proud to host the Health and Safety's Executive Welsh launch in April 2016 of its new strategy to help Great Britain Work Well, our efforts to promote the health and well-being of our colleagues has also enabled us to secure the Welsh Government's Gold Corporate Health Standard award in 2016. This initiative is the quality mark for such activity in Wales and is supported by a wide range of measures to encourage colleagues to take care of their health, educate managers to enable them to support colleagues with mental health illnesses and a new pilot initiative to provide faster access to treatment for musculoskeletal disorders where appropriate.

We are committed to enhancing our colleagues' skills and experience. We won the Large Employer of the Year Award this year in the NIACE Cymru - Inspire! Adult Learning Award. This was in recognition of our commitment to investing in adult education by developing colleagues and the particular success of our Essential Skills Programme. Over 500 colleagues have achieved over 1,200 qualifications in literacy, numeracy and ICT skills and we were commended for being the most successful workplace essential skills programme in Wales.

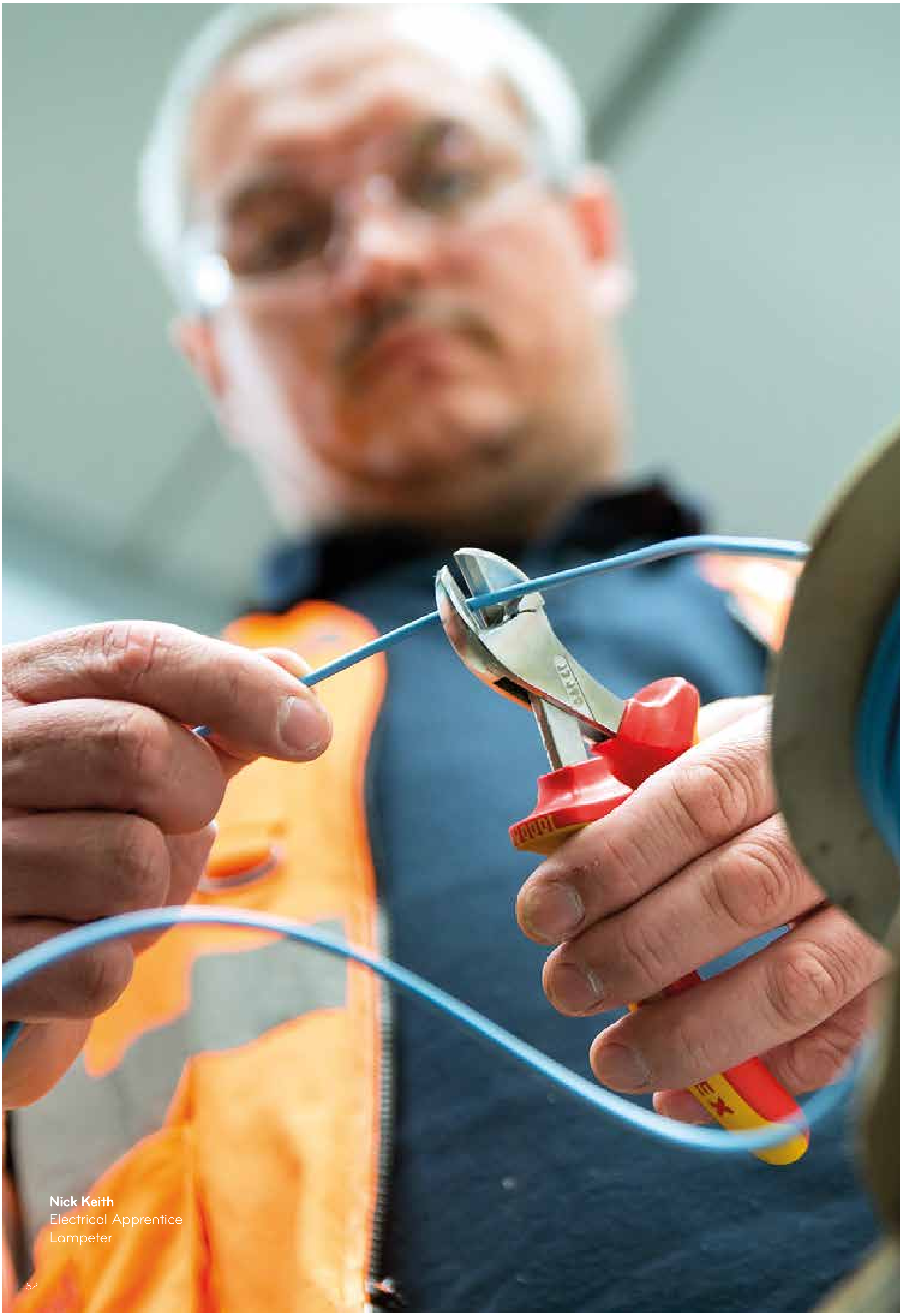
Challenges faced

To help ensure that we are well placed to deliver our latest business plan and manage wider changes in the water industry, we implemented significant changes over the past 12 months. These included moving colleagues to new bases to deliver our cost saving property strategy. Our managers and trade union representatives utilised our joint problem solving approach to implement our new Working Together Agreement resulting in changes to terms and conditions and working patterns for operational colleagues. This approach ensured this was achieved without any impact on the service we provide to customers.

We strive to create a culture that enables our colleagues to provide the best possible customer service, supporting this with training, staff awards and a coaching culture.

Looking ahead

A key part of this process starts with recruitment— we select people with the right attitude, train them thoroughly, develop their skills, and recognise their efforts. We know that high calibre colleagues provide excellent service and an engaged workforce results in satisfied customers. A key enabler for this is our Customer-led Success initiative and our How2Wow Customer Service training programme has been re-accredited by the Institute of Customer Service for the third year running.



Nick Keith
Electrical Apprentice
Lampeter

OUTCOME 7:
DEVELOPING OUR PEOPLE
CASE STUDY

APPRENTICES

Nick Keith (Electrical Apprentice, Lampeter); nominated for NIACE Cymru Adult Learner Award 2015 and NIACE Cymru Adult Learning Ambassador. NIACE Cymru is the Learning and Work Institute and advises providers of adult education in Wales.

“

Since joining Welsh Water, I've had a chance to challenge myself and pursue a career in an area that truly interests me. I've been supported by the company to do an apprenticeship scheme that offers academic training alongside the practical experience that's needed by the role. Being an apprentice at Welsh Water has given me a chance to demonstrate my initiative and commitment to an employer who invests in training and recognises achievement.

”

OUTCOME 8:

AN EFFICIENT BUSINESS

WE WILL CONTINUE TO BE AN EFFICIENT BUSINESS WITH A STRONG CREDIT RATING

Highlights

Financing efficiency continues to be one of our most important successes and is key to ensuring that the essential service we provide to over three million people is affordable. Under Glas Cymru's ownership of Welsh Water, we have created financial reserves which now stand at over £2 billion by reducing gearing from 93% at the acquisition in 2001 to under 60% today.

In 2015-16, we have also considered how the purpose of the business needs to evolve in light of external changes to the regulatory environment within which we operate. This is why we restructured the Glas Cymru Group to establish a new holding company as the parent of Glas Cymru Cyfyngedig, namely Glas Cymru Holdings Cyfyngedig. This company is also limited by guarantee ('not-for-profit') and is prohibited from paying dividends or making other distributions to its Members. The changes allow for the creation of new subsidiary companies and limited commercial activities. This will be led by our Commercial Team and funded using Welsh Water's financial surpluses subject to a cap of £100 million.

“

Our core objective is to provide water and water services to our customers at the most affordable price. The financial strength of the company has improved significantly since its inception in 2001, and we are therefore able to consider a wider scope of services which should deliver additional value to our customers.

Peter Bridgewater
Finance and Commercial Director

”

Challenges

Our appointed revenues have reduced slightly this year to £743 million (2015: £753 million), attributed principally to Ofwat's revenue controls for the Retail, Water and Wastewater parts of the business which reduced charges to our customers from 1 April 2015 by 1%.

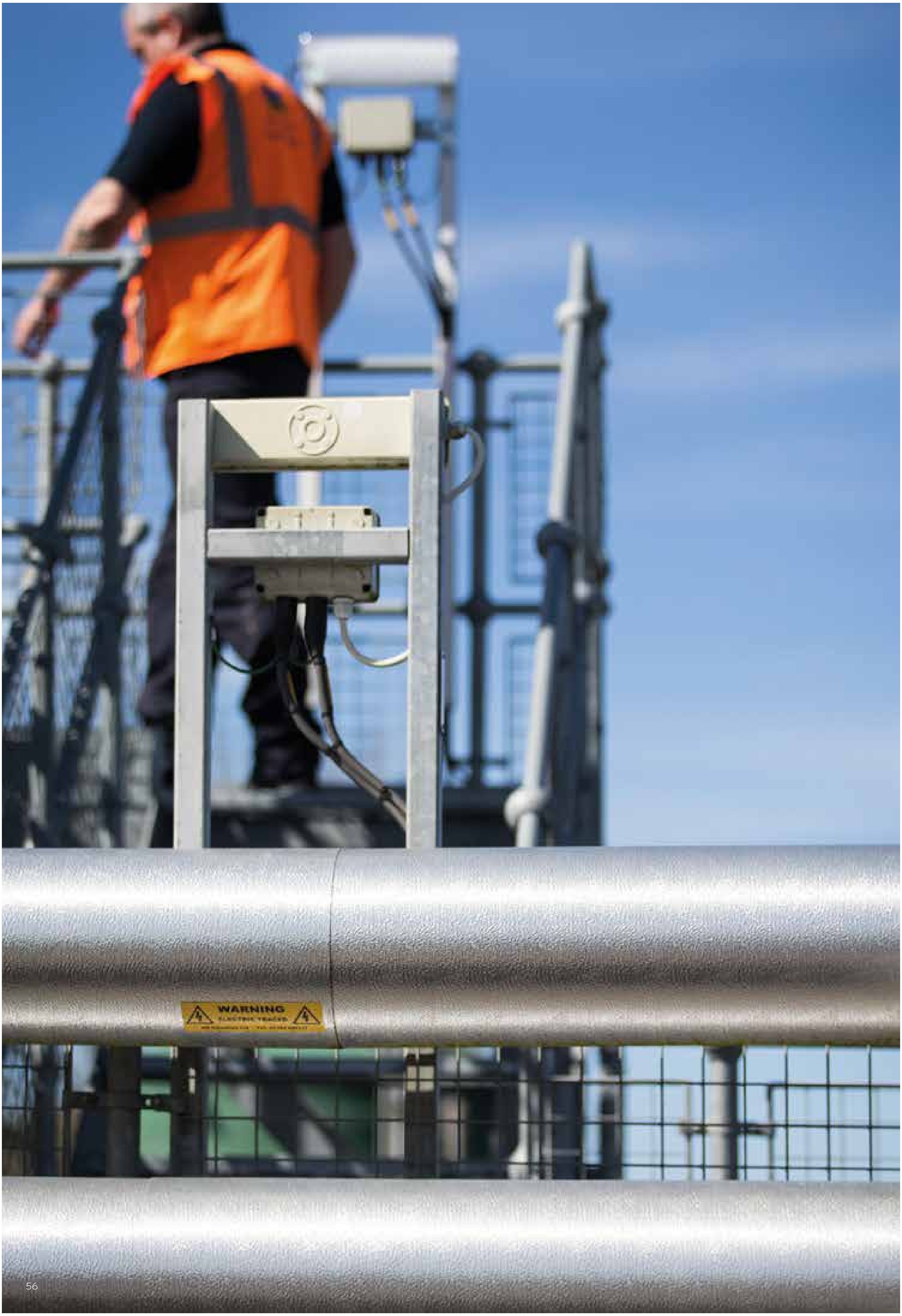
Our total operational costs (excluding exceptional items) have remained stable at £297 million (2015: £295 million) - the impacts of inflation and weather-related increases in the power used to pump water and wastewater have been largely offset by ongoing efficiency initiatives.

All water and sewerage companies need to draw on significant energy resources, particularly for water treatment and pumping processes, and Welsh Water —with its network spread across Wales' undulating topography—is no exception. Overall power costs have fallen following the purchase of hydro assets during the latter part of 2014-15, reducing power costs by £3 million in 2015-16.

Looking ahead

If we are to provide the best possible service, it is important that we retain the best people and this is why colleagues across the business were given an annual pay award of 1.5% in 2015-16 which resulted in costs increasing by £1 million compared to the previous year. However, we also need to drive improvements in the efficiency of service. These efficiencies will continue to be realised in the next 12 months as we refocus after reshaping the business and facilitating a voluntary severance programme which led to 216 colleagues leaving the business.

Gross capital investment of £279 million in our water and wastewater operations was lower than last year (2015: £379 million), a temporary reduction as we rebuild our capital delivery capability with new capital partners to deliver our £1.7 billion investment programme between 2015 and 2020. We plan to invest a further £365 million in 2016-17.



WARNING

OUTCOME 8:
AN EFFICIENT BUSINESS
CASE STUDY

40% REDUCTION IN MAINTENANCE ACTIVITY

ANNUAL SAVINGS TO DATE OF **£400,000**

LEAN

To help drive efficiencies and ensure that we continue to achieve sector-leading efficiencies across the company, we have introduced Lean ways of working in the last two years across 21 of our sites and wastewater treatment sites. This is helping us reduce maintenance activity by around 40% and has already achieved annual savings of £400,000. We have developed a certified Lean Training programme this year to help embed a culture of continuous improvement amongst colleagues.

11

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 risk management.

Our systems of internal control are designed to identify, evaluate and manage risks affecting the business. This year, the Board has carried out a comprehensive review of its approach to risk management, which has involved a robust assessment of the principal risks facing the company and our tolerance of risk in these key areas. This assessment is then used to inform our investment programme and, because of our not-for-shareholder model, helps to focus where money, which might go to shareholders in other organisations, may be best invested to manage key risks. The analysis below focuses on those risks that would threaten the company's future performance, solvency or liquidity. The internal controls to ensure that risks are adequately managed are also considered by the Audit Committee.

Where it is not possible to mitigate the risk fully, a plan has been adopted to reduce the potential impact of the risk over the medium term to an acceptable level.

Our approach to risk management:

- Individual teams within the business take responsibility for managing risks within their areas of responsibility.
- Each business unit has the opportunity to feed 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.
- The Executive team's update on strategic risks affecting the business is reviewed at every Board Meeting and the Board has an in-depth review of strategic risks twice every year. The Board has now adopted an approach assessing the current level and a target level for each risk.
- The Audit Committee has accountability for overseeing the risk management processes and procedures, and reports to the Board. All colleagues have the opportunity to make confidential disclosures about suspected failure to follow procedures or wrongdoing to Internal Audit or to an external whistle-blowing helpline, in accordance with our Whistle-blowing Policy.
- This bottom up and top down approach to risk management provides assurance that risks are being effectively managed by the business and identifies those areas where further mitigation steps are needed.

We continue to use the 'Three Lines of Defence' model to mitigate risk of non-compliance with our processes and policies:

- First line of defence is ownership and management of risk. This is fulfilled by our operational teams and managers.
- Second line of defence is risk management and risk control. This is fulfilled by our compliance team and internal committees.
- Third line of defence is independent review and oversight. This is fulfilled by Internal Audit.

Note on significant disputes with the potential to impact the company.

Albion Water and United Utilities: the company continues to be in dispute with Albion Water and with United Utilities over the correct approach to pricing supplies of water from the Heronbridge system. It is hoped that further guidance from Ofwat on approaches to pricing bulk supplies of water may assist in resolving this dispute.

Tata Steel: the final pricing determination in respect of the supply of water to Tata's sites in Wales is still awaited from 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. These proceedings are ongoing against the UK government, although in the case of the Loughor Estuary catchments, there is an extensive ongoing programme of investment in the area, in particular with regard to sustainable urban drainage systems. The company continues to work closely with Welsh Government and Natural Resources Wales to enable a response to the claim case.

KEY RISKS FACED BY THE GROUP

Key Risk and Severity	Potential Impact	Mitigation	Changes over the period	Trend relative to last year
Health & Safety Major Incident	The health and safety of our employees and the public in the provision of our services and on our sites is our utmost priority. Risks include the potential for an accident or death to a member of the public, on one or our sites or as a result of our actions, or to an employee or contractor in discharging their duties. Health and safety issues remain a key focus in the management of the business and we consider that we have taken all reasonable steps to minimise risks in this area. However, there have been two fatalities in the UK water sector over the last two years and there is no complacency in the approach of the Executive team to the management of this risk.	The Health & Safety of colleagues, customers 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 in detail at every meeting of the Board and the Quality and Environment Committee. 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. We also work with Trade Union H&S Consultative Forums at both Company and operational levels.	We are currently working with an external consultancy on behavioural risk issues. Recent internal audits have identified failures to follow procedure in respect of some instances of work on pressurised pipes, so we have improved processes and training in this area. Further to the Board's strategic review of risks, a reporting line has been put in place between the Head of Health & Safety and the Chair of the Quality and Environment Committee.	◀ ▶
Major public health incident	A major public health incident would have serious consequences for our customers or members of the public. A sustained problem with drinking water quality (e.g. cryptosporidium or bacterial infection) would require a widespread "boil water" notice. This could be caused by asset failure, an unanticipated catchment risk, or deliberate sabotage.	Providing safe, clean drinking water is our primary public health responsibility. We take this matter very seriously with daily reporting to Director level on water quality performance including presumptive bacteriological failures, detection of Cryptosporidium and all other failures. Major public health incidents related to water supply are rare, however a large scale incident would attract considerable media and public interest even when no actual harm is caused to public health. We experienced a number of major incidents in the period 2006–2009 with the most high profile incident at Cwellyn wtw, a supply zone where we had an acute Crypto outbreak. Since then, considerable investment in water treatment works (the £120m 'Go to Green' programme), risk management procedures and water quality expertise has resulted in significant improvement in performance. Through this overall improvement programme the likelihood of a major public incident is considered as being low. However, there is a well-established focus on continuous improvement within the business to further strengthen risk mitigation in this area.	We review every incident that impacts on the safety or wholesomeness of drinking water or where it had the capacity to do so, to ensure that lessons can be learnt for the site concerned, and where appropriate, that relevant learning points are rolled out 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 and this continues to be an area of risk that demands a key focus from management.	◀ ▶

Key Risk and Severity	Potential Impact	Mitigation	Changes over the period	Trend relative to last year
Failure to achieve required performance levels and efficiencies during the period 2015-2020	Sustained deterioration in performance could lead to loss of a customer confidence, impact our reputation with stakeholders and to regulatory action. The risk that the company will be unable to achieve its cost reduction targets over the next year and into the next five year investment period would reduce the surplus that we have to return value to customer or could impact our ability to maintain our credit rating.	Our rolling five year business plan confirms our expected ability to meet our performance and costs targets, with the targets and actions required from management to deliver this performance. Progress towards these targets is tracked throughout the organisation each month and they are reset each year.	Broadly, Water and Waste performance is very good measured against the rest of the sector. However, currently two Water measures: Mean Zonal Compliance and Customer Acceptability Contacts (CAC) are challenging and we are therefore investing more in these areas than originally planned.	
Failure to deliver the retail customer service plan, including management of bad debt.	Failure to deliver cost efficiency (specifically reduction in bad debt and efficiencies in customer service) could lead to a loss making retail business. The costs challenges are complicated by the general economic environment (specifically in Wales), changes to the welfare benefits system and continuing squeezed living standards which put cash collection at risk. In the event of a further economic downturn, we could see an increase in bad debt of up to £10m a year, as happened after the 2008 financial crisis. Customers in our supply area have higher than average bills and lower than average disposable incomes. Current Business Plan targets are very demanding (to reduce bad debt from around £30m in 2014 to around £20m by the later years of AMP6.	We have a major Retail Transformation Programme in place with considerable financial support and external expertise. However, the programme is still at a relatively early stage of the implementation. Some issues from the implementation of the new billing system are still being resolved and debt recovery initiatives are based on 'pilot schemes' so far.	We have just completed our second round of annual billing using our new billing system, RapidXtra. While economic conditions still present a significant challenge for some of our customers who are struggling to pay, we have nearly 55,000 customers receiving help to pay their water bills. The Retail Transformation Programme is now fully resourced and delivering concrete results in terms of cash collections, securing debt and improving service.	
Failure to adapt to the challenges and opportunities of sector changes	Proposed market reforms could see some £60 million pa (8%) of revenues subject to some form of competition. Business Retail Market opening presents significant opportunities as well as customer service and compliance challenges. Some of these risks may not manifest themselves within the current AMP period, but it is important that structural, governance and investment changes are implemented now in order to meet the future challenges and opportunities.	We are committed to ensuring that customers in Wales are not disadvantaged by the restriction of retail competition to our largest business customers. Our ambition to earn the trust of our customers every day and to be the best performing Water and Sewerage company in the UK will ensure that we continue to provide the best possible service to customers while 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 as a business to respond to developments in the sector.	Our Market Opening project has been set up, is well resourced and is on track. The restructuring of the Glas Group from 1 March 2016 is a key enabler to allow us to offer a broader range of services to business customers.	

Key Risk and Severity	Potential Impact	Mitigation	Changes over the period	Trend relative to last year
Increased focus on Environmental Regulation	Increased enforcement of European regulation is likely to impose significantly increased costs which will need to be funded. Changes to sentencing guidelines for infringement of environmental legislation have led to greatly increased levels of fines for pollution incidents. We have mentioned the current EU infraction case involving the Loughor Estuary. (see page 58) Other investment will be required to address tightening environmental standards, and we are monitoring developments in this area carefully to allow us to plan to meet our requirements.	The cost of the investment required at Loughor is large, currently estimated at over £70m. While we can fund this in the short term, this will impact customers' bills after 2020.	The proceedings brought by the European Commission in respect of the UK Government's failure to meet the requirements of the Urban Wastewater Treatment Directive are continuing and have involved us in preparing data and information to enable UK Government to respond to the claim. Discussions are taking place via EurEau and the UK's 21st Century Drainage Board to enable DEFRA to issue updated guidance on what it means to comply with the Directive.	▲
Failure to earn the trust and confidence of our customers	Failure to earn the trust and confidence of our customers leading to failure to achieve our corporate objective, reputational damage, increased customer service costs, damage to regulatory or government relationships and loss of employee morale. This risk is inextricably linked to many of the other risks identified.	We have a strong, positive reputation and high levels of trust with our customers. However, trust is built on customers' perception of good service and value for money and familiarity with the company. We are aware from events elsewhere in the sector that customer trust can be easily lost. Our mitigations for this risk include the following actions: — roll-out of Customer-led Success approach, across the business — planned profile raising campaign (Summer 2016) — instigation of Glas Member and customer engagement on how to best return value to customers — ambitious AMP6 Customer Engagement and Research Plan — work with Institute of Customer Service	Our understanding of what drives customer trust and confidence is improving as a result of our customer led success approach started in 2015. We have appointed a Director of Customer Service to focus our research and activities in this area.	▼

Key Risk and Severity	Potential Impact	Mitigation	Changes over the period	Trend relative to last year
Loss of key talent, capability and competence	The recent increases in investment in industries where we compete for labour present an emerging risk to our ability to attract and retain employees with the skills and competence we require.	We need to attract electricians, instrument technicians, engineers, procurement specialists and data analysts. Key mitigations include: — rolling 5 year Resource Plan drive identifying risks and timing of recruitment — continue with annual apprentice, trainee and graduate intake — project launched to align job evaluation and assessments across wholesale and retail and benchmarking of current market salaries — feasibility study to explore benefit of building Welsh Water Technical Academy	Due to the expected upturn in construction activity and known trend in automation, some skills challenges are likely in the period to 2020. We are continuing to successfully recruit graduates and apprentices and are continuing to invest in our recruitment programmes.	◀▶
ICT Risk	A major loss of Information and Communications Technology service would put business performance at risk, whilst several business improvement plans are reliant on new ICT systems. Cyber security is an increasing issue, although the national assessment of cyber threats to the UK water industry is 'low'.	Over recent AMP periods we have invested heavily in IT systems, with over £92.5m in AMP 5 (including a new billing system & operating platform) and we will invest a further £68.2m in AMP6. We are also planning to achieve the 'Cyber Essentials' level of certification for Information Security in 2016. Key mitigations include: — Payment Card Industry compliance (which helps to ensure that our customers' bank and credit card details are safe) — 'Information Security' Programme & links with CPNI improved capability within Business Information Systems team since insourcing in 2010 — Information Security Steering Group—chaired by General Counsel. — Systems & Change Board—Chaired by COO governing major systems investment programme The likelihood and severity of this risk will reduce once the transition to a new ICT service partner and new data centres is achieved by the end of 2016.	Transition plan for new ICT service provider, with strong internal and external governance and assurance.	◀▶
Future funding risk and relationships with investors	There is a risk that debt funding will not be available to the business at a reasonable cost when we need to refinance our debt and in particular our bonds maturing after 2021. Strong relationships with our bondholders are key to the Group's ongoing success, and a good credit rating remains essential to ensuring funding is available at a reasonable price.	We regularly review funding opportunities and the wider state of the markets to ensure we are in a good position to approach the markets for funding at an appropriate time. Relationships with investors remain good and we achieved 100% approval on behalf of lenders to approve the limited changes to the corporate structure undertaken in the first quarter of 2016. Our credit rating remains the highest in the industry and gearing is now below the target level of 60%.	We have secured another £250m of debt funding from the European Investment Bank. Our credit ratings have been confirmed at utility sector leading levels by all three of our Rating Agencies.	▼

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LONG-TERM VIABILITY STATEMENT

The Board's consideration of the Group's long-term viability is embedded in our business planning process; this includes robust risk management controls and financial forecasting and sensitivity analysis, as well as regular budget reviews. This process is underpinned by a culture of support and challenge that flows from our leadership team to all aspects of our operations. We consider that a period of five years is the most suitable period over which the Board should assess the prospects of the Group: it is equal to the length of our regulatory determination and consistent with our annual five-year business planning process.

The principal risks facing the Group are set out on pages 59 to 62 in relation to our ability to deliver our strategic objectives. Risks are identified and assessed through a continuous cycle of bottom-up reporting and review and top-down feedback and horizon scanning. We accept that risk is a necessary part of doing business, and our risk management process aims to capture a spectrum of risk from inherent to emerging, and across all business areas.

The Board has analysed the efficacy and robustness of its control framework in managing the likely causes and consequences of each risk, and has reviewed the Group's assumptions and contingency plans. The Board has discussed the potential financial and reputational impact of these principal risks against the Group's ability to deliver its 2016 business plan (covering the period April 2016 to March 2021). The Board has stress-tested the business plan against different financial scenarios (including fluctuations in inflation and interest rates) and reputational scenarios (including safety and reliability events), including a qualitative assessment of the impact of plausible combinations of principal risks.

The Board has assessed the potential impacts of these risks within the context of its risk appetite and is confident that the controls in place are sufficient to keep the Group's financial performance within appropriate tolerance levels. In making their assessment, the Directors have taken account of the Group's robust forecast and actual gearing of around 60%, its strong level of liquidity and its ability to raise finance. Based on its robust assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2021.

GOVERNANCE REPORT

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

INTRODUCTION

Good governance is fundamental to all of our activities; it helps to build the trust of our customers and other stakeholders and aids effective decision making. We have a strong Board with a majority of independent Non-Executive Directors, who are focused 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.

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 helps to ensure that we maintain and enhance the diversity of background and skillset 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. Joanne Kenrick joined our Board in November 2015. Her immediate past executive role was as Marketing Director for Homebase, and she has a strong marketing, retail and customer services background.

The focus of the Board this year has been on continuing and further improving our high standards of customer service and operational performance. Our customer led success strategy has ensured that our customers are firmly at the centre of everything we do. As a Board we have inspected a number of our sites including our new visitor centre at Llandegfedd Reservoir, Elan Valley reservoirs, Five Fords wastewater treatment works in Wrexham, our new valve test rig at Sluvad water treatment works, and our new capital projects base at Tŷ Awen, Coedkernew, Newport.

In March 2016 we changed our corporate structure. We created a new holding company called Glas Cymru Holdings Cyfyngedig; a company limited by guarantee. All Glas Cymru Cyfyngedig Members have become Members of Glas Cymru Holdings Cyfyngedig. Our Members played a crucial role in the decision to change the structure and, on 22nd February 2016, the company held a formal Court meeting and Extraordinary General Meeting to vote on resolutions to effect a Scheme of Arrangement to amend the Group Structure. 98% of Members present or voting by proxy voted in favour of the resolutions recommended by the Board and the Scheme of Arrangement was subsequently approved by the Chancery division of the High Court. The new structure will allow us to pursue some commercial activities but we will keep this ring-fenced from the operational wholesale business.

The Board has also had a renewed focus on risk management this year in light of corporate governance changes and to reflect changes in risk profiles for the current investment period. The Board have held two sessions considering risk management in more detail, one of which was facilitated by Price Waterhouse Coopers. It is the combined role of the Board and Executive team to work together to understand the risks the company faces and ensure that appropriate mitigations are put in place. Our Risk Report is included in the Strategic Report.

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

Robert Ayling

Robert Ayling
Chairman

3 June 2016

THE BOARD

ROBERT AYLING

CHAIRMAN (69)

JOINED: APRIL 2008

IN POST SINCE: JULY 2010

Experience
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, Bob 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.

Current other Non-Executive positions
Independent Chairman of HM Courts & Tribunals Service.

Previous Non-Executive positions
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.

Committee membership
Member of the Audit Committee, Finance Committee, Quality and Environment Committee, Remuneration Committee and Chair of Nominations Committee.

MENNA RICHARDS

SENIOR INDEPENDENT DIRECTOR (63)

JOINED: NOVEMBER 2010

IN POST SINCE: JULY 2014

Experience
Menna's executive career was in broadcasting as Director BBC Cymru Wales (2000–2011) and previously Managing Director, HTV Wales. She was awarded the OBE for services to broadcasting in 2010.

Current other Non-Executive positions
Non-Executive Director of Welsh National Opera.
Chair of the ALOUD charity.
Vice Present of the Royal Welsh College of Music and Drama.

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

Committee membership
Member of the Remuneration Committee and Nominations Committee and sits on the Independent Member Selection Panel.

CHRIS JONES

CHIEF EXECUTIVE (52)

IN POST SINCE: SEPTEMBER 2013

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

Current other Non-Executive positions
Deputy Chairman of the Prince's Trust Cymru Advisory Council since 2009.

Previous Non-Executive positions
Non-Executive Director of the Principality Building Society.

Trustee of the Institute of Welsh Affairs.

Committee membership
Member of the Nominations Committee and Quality and Environment Committee.

PETER BRIDGEWATER

FINANCE DIRECTOR (53)

IN POST SINCE:
SEPTEMBER 2014

Experience
Peter joined Welsh Water as Finance and Commercial Director in September 2014 with 15 years of experience in both finance and Managing Director roles across the energy and water sectors, in the UK and overseas. Peter has been an Executive Director with E.ON and with Sembcorp Industries in regulated utilities and competitive industries as well as a pension fund trustee. Prior to joining the energy industry in 1994 Peter was a chartered accountant and management consultant with PwC and studied Psychology at Durham University.

Current other Non-Executive positions
Non-Executive Director of Ebico Limited (a not for profit gas and electricity provider).

PETER PERRY

CHIEF OPERATING OFFICER (53)

IN POST SINCE:
JULY 2006

Experience
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.

Current positions
He is also a Director (representing Wales) at The Water Regulations Advisory Scheme, the national body specifying standards for materials and workmanship used in potable water supply.

Committee membership
Member of Quality and Environment Committee.

GRAHAM EDWARDS

NON-EXECUTIVE DIRECTOR (62)

JOINED:
OCTOBER 2013

Experience
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. Prior to working in utilities he held senior positions in various functions across a wide range of manufacturing businesses including Engineering, Production and Human Resources. Graham has an MBA from Cardiff Business School and is a Fellow of the Chartered Institute of Personnel & Development.

Current other Non-Executive positions
Board member of University of South Wales and the Royal Welsh College of Music and Drama.

Previous Non-Executive positions
Previous Chair of CBI Wales and Business in the Community Wales.

Committee Membership
Member of the Audit Committee and the Quality and Environment Committee.

JOANNE KENRICK

NON-EXECUTIVE DIRECTOR (49)

JOINED:
NOVEMBER 2015

Experience
Joanne was the Marketing Director for Homebase until the end of 2015, responsible for all communications, the website business, insight, customer proposition, and the loyalty relationship with Nectar. Prior to rejoining the world of retail, Joanne was CEO of Start, setting up and running HRH the Prince of Wales' public facing initiative for a more sustainable future, and before working at Clarence House, she held various marketing roles, including Marketing and Customer Proposition Director for B&Q, Marketing Director for the National Lottery, and Group Sales and Marketing Director at Wilson Connolly, then among the UK's top five house builders. She has also worked for Woolworths, Asda, Pepsico and Masterfoods. Joanne has a degree in Law from Nottingham University, and whilst at college she was one of the first women ever trained to fly by the RAF.

Current other Non-Executive positions
She is also a Non Exec Director for Safestore, the UK's largest self-storage business and Chairman of trustees of the children's charity Make Some Noise.

Previous Non-Executive positions
She was a Non-Executive Director at Principality Building Society for 7 years.

Committee Membership
Member of the Quality and Environment Committee.

ALASTAIR LYONS

NON-EXECUTIVE DIRECTOR (62)

JOINED:
MAY 2016

Experience
Alastair has over 25 years' experience in the finance sector. During an extensive executive career, he was Chief Executive Officer of the National Provident Institution and the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc.

Current other Non-Executive Roles
He is currently Chairman of Admiral plc and Deputy Chairman of Bovis Homes Group plc.

Previous Non-Executive positions
Alastair previously served as Chairman of Towergate Insurance, Chairman of Serco, the international services group, and Senior Independent Non-Executive Director at Phoenix, the life assurance consolidator. He has also been a Non-Executive Director of both the Department for Transport and the Department for Work and Pensions.

Committee Membership
From 1 May 2016, Alastair has been a Member of the Nominations Committee, Finance Committee, Quality and Environment Committee and Remuneration Committee.

STEPHEN PALMER

NON-EXECUTIVE DIRECTOR (64)

JOINED:
OCTOBER 2009

Experience
Stephen 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 service and academic public health for over 25 years. He has a long CV of previous public health professional functions and has published numerous academic papers and books on epidemiology, communicable diseases and chemical hazards.

Previous Non-Executive positions
Mansel Talbot and Cochrane Chairs, Cardiff University, chair of Wales Health Protection Committee.

Committee Membership
Chair of the Quality and Environment Committee.

ANNA WALKER

NON-EXECUTIVE DIRECTOR (65)

JOINED:
MARCH 2011

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

Current other Non-Executive positions
Anna, who was given a CB in 2003 for public service, is Chair of the charity Young Epilepsy and a member of the Council of Which? and a trustee of Women in Rail, a charity supporting women in the rail sector.

Previous Non-Executive positions
Anna was Chair of the Office of Rail Regulation from 2009-2015 and a former Vice Chair of Consumer Focus, the statutory consumer champion body.

Committee Membership
Chair of the Remuneration Committee and member of the Audit Committee.

JOHN WARREN

NON-EXECUTIVE DIRECTOR (62)

JOINED:
MAY 2012

Experience
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.

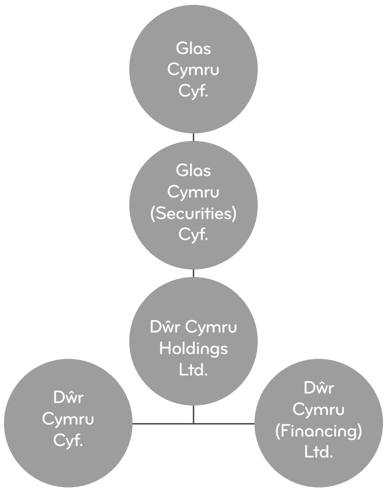
Current other Non-Executive positions
He is currently a Non–Executive Director and Chairman of the Audit Committee for Greencore Group plc, 4imprint Group plc and Bloomsbury Publishing Plc.

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

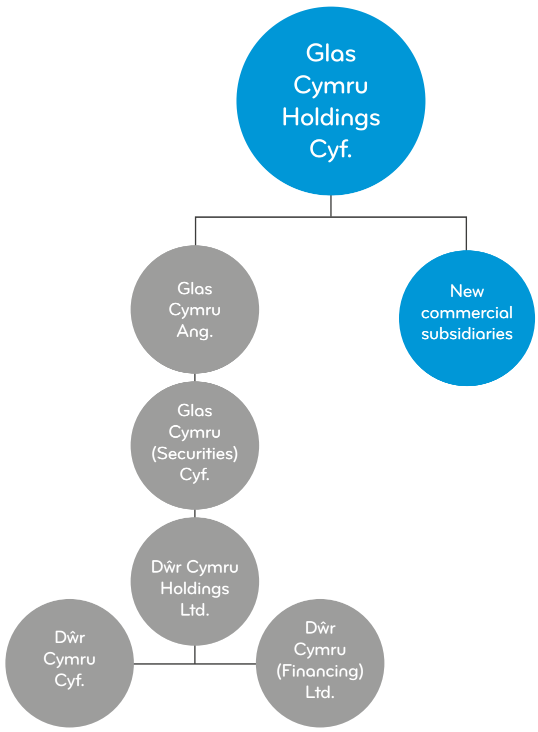
Committee Membership
Chair of the Audit Committee and member of the Finance Committee and Remuneration Committee.

OUR COMPANY STRUCTURE

Previous company structure



New company structure



Our Financial Statements (from page 108) provide details of the following companies in our Group structure:

- During the financial year we created a new company called Glas Cymru Holdings Cyfyngedig. This company is a company limited by guarantee. The Members of Glas Cymru Cyfyngedig are now Members of Glas Cymru Holdings Cyfyngedig. The new company adopts the same not-for-profit, customer-focused ethos of Glas.
- Glas Cymru Cyfyngedig was formed as a company limited by guarantee with the single purpose to acquire and manage Dŵr Cymru Cyfyngedig. During 2015-16 the company has been reregistered as an unlimited company Glas Cymru Anghyfyngedig.
- 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 and all of its activities were transferred to Dŵr Cymru Cyf.
    - Dŵr Cymru Customer Services Limited (as subsidiary of Dŵr Cymru Cyfyngedig) previously provided income collection and billing services to Dŵr Cymru Cyfyngedig. The company was made dormant within the year and all of it's activities were transferred to Dŵr Cymru Cyfyngedig.
    - Hydro 1 Limited was acquired in 2015, its principal activity is production of energy.
    - Welsh Water Utilities Finance Limited principal activity is financial intermediary.
    - It is the Group's intention to liquidate the dormant entities Hydro 1 Limited, Dŵr Cymru Customer Services Limited and Welsh Water Utilities Finance Limited by 31 December.

GOOD GOVERNANCE

As a company responsible for providing a vital public service, we understand that how we are governed is crucial to gaining the trust of our customers. We believe that strong Board leadership and management, in conjunction with appropriate committees including an Audit Committee and robust internal and external audit functions, are the pillars of good governance.

Glas Cymru continues to have a clear division of responsibilities at the head of the company, demonstrated by a Board of Directors made up of a majority of Independent Non-Executive Directors who constructively challenge the management team. The Board is responsible for promoting the long-term success of the company, setting the Group's strategic aims, monitoring the performance of management against the strategic aims, advocating good governance, setting the risk appetite and ensuring that effective controls are in place in the business.

As a company limited by guarantee, we counterbalance the fact that we do not have shareholders by having a Membership with a clear and effective governance role. Members are drawn from across our supply area and have a range of backgrounds, skills and experience. Members hold the Board to account for the stewardship of our assets and for our key goal of providing a very important and essential public service to more than 3 million people in a manner which will be sustainable for future generations. Membership is personal and therefore Members do not represent any particular Group or stakeholder interest. They do not receive fees nor do they have a financial stake in the business. We believe this independence facilitates robust governance and is a key feature of our governance structure.

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, broadly reflective of the range of our customer and other stakeholders' interests. The independent Chair of the Member Selection Panel is Glyn Mathias, its other Members are Arthur Walford and Menna Richards.

There are presently 73 independent Members of Glas Cymru. Under the Company's Articles of Association each Director is also a Member. During 2015-16 three Members stepped down and four new Members were appointed by the Member Selection Panel.

We hold an AGM and a second Members' meeting to report to Members and we also hold twice yearly regional Members' meetings to provide a more informal opportunity to gain insight into our working sites and to meet local teams. Our Members appoint the Directors and the auditors every year, challenge the company on remuneration and satisfy themselves that an appropriate governance structure is in place. On 22nd February 2016 the company held a formal Court meeting and Extraordinary General Meeting which approved resolutions to effect a Scheme of Arrangement to amend the Group Structure (as described on page 71).

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 dwrcymru.com.

Glas Cymru complies with the guidelines of the economic regulator and the provisions of the UK Corporate Governance Code except for relations with shareholders as we have members not shareholders. We have a simple structure which we explain each year in our annual report. We publish our governance code, which documents the framework we employ to facilitate effective management, on our website. Glas Cymru reports to the Membership openly and honestly and maintains an open dialogue with Members where they are invited and encouraged to put their views to the company throughout the year by correspondence and twice yearly at Members' meetings.

OUR GOVERNANCE FRAMEWORK

Leadership

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We are headed by an effective Board which is collectively responsible for the long-term success of the company.

There is a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual has unfettered powers of decision.

Our chairman is responsible for leadership of the Board and ensuring its effectiveness.

Non-Executive Directors constructively challenge and help develop proposals on strategy.

Effectiveness

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The Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. We regularly assess this as part of our effectiveness review.

Glas Cymru has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Directors receive a tailored programme of induction on joining and ongoing educative and informative programmes on topics relevant to the operation and governance of the business.

Each Director undertakes an individual and Board effectiveness review annually.

All Directors allocate sufficient time to the company to discharge their responsibilities effectively.

We provide all meeting materials a week in advance.

Our Non-Executive Directors have access to the Company Secretary and external advisors such as the Reporter, auditors and remuneration advisors to provide the Board with an external viewpoint.

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. We undertake an externally facilitated review every three years.

Accountability

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The Board presents a fair, balanced and understandable assessment of the company's position and prospects.

The Board determines the nature and extent of the principal risks it is willing to take in achieving its strategic objectives.

The Board maintains sound risk management and internal control systems. Risk management has been an area of focus this year.

The Board has formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

All Directors stand for re-election by Members at each Annual General Meeting. Each Non-Executive Director holds office for a period of three years which may be extended up to nine years following careful consideration as to the continuing independence of the Director.

Remuneration

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Executive Directors' remuneration is designed to promote the long-term success of the company.

Performance-related elements are transparent, stretching and rigorously applied.

There is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director is involved in deciding his or her own remuneration.

Relations with shareholders

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As we do not have shareholders, we voluntarily apply many of the shareholder principles on governance to our Members and Investors. We have regular dialogue with Members and Investors.
The Board is responsible for ensuring that a satisfactory dialogue takes place. The Board use general meetings to communicate with Members.

The Company's Treasury team continues 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.

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 for areas such as strategy, risk and many other decisions. The schedule of matters reserved is periodically reviewed and updated 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.

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

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

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

As part of the work undertaken to review its internal controls on an annual basis, the Board also considers the effectiveness of its system of internal controls with regard to how these have operated in respect of the specific challenges faced by the company over the course of the previous reporting period.

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. Robert Ayling is our current chair.

Robert Ayling will step down from the Board in July 2016. He has been a valuable Member of the Board since 2008 and has brought his considerable experience of legal, government and regulatory matters to bear to enable him to challenge and support the Executive team effectively.

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. Menna Richards is the current Senior Independent Director.

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 team 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.

Appointments

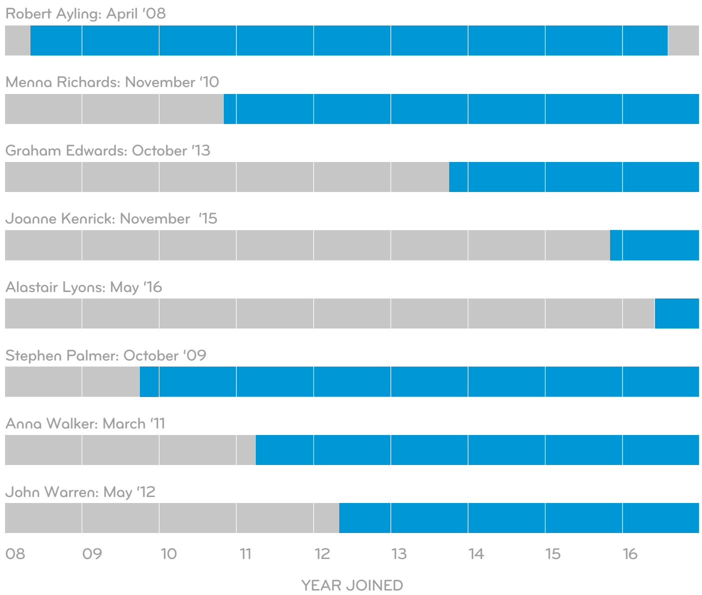
The company's Articles of Association empower the Board to appoint new Directors. The Board is committed to ensuring the right balance of skills and experience and diverse backgrounds. Directors must display independent judgement and an ability to challenge constructively. The search for Board candidates 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.

Glas Cymru 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 undergo 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 2015-16 our Board received Remuneration Committee and health and safety training. This year the Board has held site visits and meetings around the business, visiting Llandegfedd Visitor Centre (June), Elan Valley reservoirs (July), Tŷ Awen—Alliance Capital Partners centre (October), Five Fords Wastewater Treatment Works and Renewable Energy park (December), Sluvad high pressure pipe repairs training rig and Llandegfedd Visitor Centre again (March).

Length of service



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 2010 Report suggested targets at Board level. Currently, 30% of our Non-Executive Directors are women, 30% of the Executive team and 29.4% of the Group's wider Leadership Team are women.

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 are deemed 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.

In order to ensure that we have an effective Board, we undertake a review once a year to provide opportunity for continuous improvement. Our Board and committees discuss the results in detail and agree a plan for improvement. Areas of focus in 2015-16 were strategy and risk reporting. As a result, the Board instigated an annual strategy day and undertook detailed risk reviews, including a facilitated session to consider potential strategic challenges and opportunities facing the business.

Re-election of Directors

In accordance with the 2014 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, Joanne Kenrick formally seeks election as a new Director, having been appointed with effect from November 2015. Alastair Lyons will also seek election as a new Director, having been appointed with effect from May 2016.

Board Meetings

In 2015-16 the Board held nine scheduled meetings and two additional meetings. 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:

- 25-year strategic plan;
- the challenges and opportunities highlighted by the proposals set out in Ofwat's Water 2020 consultation;
- the risks and opportunities presented by the limited opening of the market for retail services for some non household customers of companies wholly mainly in Wales from April 2017;
- commercial opportunities and the benefits of restructuring the business to allow some limited commercial activity linked to our core services of water cycle management;
- annual and rolling five year business plans for the business;
- talent review and succession planning;
- sustainable and resilient investment in light of climate change issues; and
- the opportunity to purchase long leases over Lisvane and Llanishen reservoirs in north Cardiff.

Attendance

All Directors are expected to attend Board and Committee meetings for which they are a Member. 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. There were no Finance Committee meetings this year.

	Board	Audit Committee	Remuneration Committee	Nominations Committee	QEC
Total no. of meetings	**11**	**5**	**3**	**2**	**8**
Robert Ayling*	10	5	3	1	7
Peter Bridgewater	11	-	-	-	-
Graham Edwards	10	2	-	1	6
Chris Jones	11	-	-	2	8
Joanne Kenrick	5*	-	-	-	2*
Stephen Palmer	11	-	-	2	8
Peter Perry	11	-	-	-	8
Menna Richards	11	-	3	1	-
Anna Walker	11	4	3	2	-
John Warren	11	5	3	2	-
James Strachan	3*	1*	1*	-	-

* Robert Ayling was on jury service in November and December 2015
*Joanne Kenrick joined in November 2015
*James Strachan stepped down from the Board in July 2015
*Joanne Kenrick joined QEC in February 2016

Conflicts of Interest

Under UK company law conflict situations must be authorised in advance to avoid a Director being in breach of their 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.

Persons of Significant Control

From 6 April 2016 we have maintained a Register of People with Significant Control to comply with the new requirements of the Small Business, Enterprise and Employment Act 2015 (2015 Act). The company has identified registrable relevant legal entities (RRLEs) within our Group structure.

External Appointments of Executive Directors

Peter Bridgewater is a Non-Executive Director of Ebico Limited, for which he is separately remunerated.

Committee written terms of reference
glascymru.com

The Role of Board 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 is chaired by a Non-Executive Director and provide regular reports to the Board.

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

Our principal Board committees are:

Board
Chaired by Robert Ayling

Audit Committee	**Nominations Committee**	**Finance Committee**	**Quality and Env. Committee**	**Remuneration Committee**
Chaired by **John Warren**	Chaired by **Robert Ayling**	Chaired by **Robert Ayling**	Chaired by **Stephen Palmer**	Chaired by **Anna Walker**
Report on page 80	Report on page 79	Report on page 79	Report on page 82	Report on page 84

Dŵr Cymru Executive team Meeting
Chaired by Chris Jones

This is the management committee of the company made up of 10 Directors (including the three Executive Directors).

Numerous management committees feed up to Dŵr Cymru Executive Meeting.

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 Non-Executive Director commits additional time and input on the following matters:

Robert Ayling	Government and regulation
Graham Edwards	Operations
Joanne Kenrick	Marketing, commercial and customer services
Stephen Palmer	Public Health
Menna Richards	Communications and Member relations
Anna Walker	Customer service, regulation and remuneration
John Warren	Finance and audit

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.

A detailed review of risk available on page 58

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 loss or failure.

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

- identification of key strategic risks and their opportunities facing the business, scale management 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 could give rise to a material liability; and
- ensuring that financial systems and procedures are fit for purpose for preparing management and financial accounts.

The Board receives assurance from independent work by Welsh Water's technical advisor (Black & Veatch) and from the programme of internal 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 recommend candidates for Board appointment.

This year the Nominations Committee appointed a Sub-Committee, chaired by me, to oversee an open and transparent process to identify a new Non-Executive Director. The recruitment consultant firm, Odgers Berndtson[1] assisted in this process, and Joanne Kenrick was appointed as a Non-Executive Director with effect from 1 November 2015. This appointment will be subject to confirmation by the Members at the AGM in July.

Later in the year, a separate Sub-Committee was appointed, chaired by Professor Stephen Palmer, to engage in an open and transparent process to identify a new Chairman to succeed me with effect from the AGM in July 2016. Alastair Lyons CBE was appointed as a Non-Executive Director following a process which was assisted by Saxton Bamfylde[2]. Subject to the Members confirming his appointment as a Non-Executive Director at the AGM in July, he will be appointed as Chairman for a three year period.

The Group 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

Robert Ayling
Chair of the Nominations Committee

3 June 2016

1 Odgers Berndtson were appointed following a procurement process and have no other connection with the Group.
2 Saxton Bamfylde were appointed following a procurement process and have no other connection with the Group.

FINANCE COMMITTEE REPORT

Chairman: Robert Ayling

Members: Peter Bridgewater; Chris Jones 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 2015- 2016, the Finance Committee did not meet.

Robert Ayling

Robert Ayling
Chair of the Finance Committee

3 June 2016

AUDIT COMMITTEE REPORT

Chairman: John Warren

Members: Robert Ayling; Anna Walker and Graham Edwards

The Audit Committee met on five occasions during 2015-16. As in previous reporting periods, during the early part of the financial reporting year 2016-17, the Audit Committee met on a further two occasions to receive the report from the external auditors on the 2015-16 annual report, focussing in particular on the key issues of judgement in the financial statements, with a view to ensuring that the Annual Report for 2015-16 presents a 'fair, balanced and understandable' picture of the company's financial status, in accordance with the September 2014 revised UK Corporate Governance Code.

The Audit Committee is supported by the external auditors. Until September 2015 the appointed auditors were PwC. Following a formal tender process led by the Chair of the Audit Committee, KPMG were appointed from 2nd September 2015 for a period of up to five years.

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 judgment applied to them or are considered to be the most inherently risky. For the end of year financial statements, these were as follows:

Classification of costs between operating expenditure and capital expenditure

The company incurs a high level of expenditure on fixed assets, including repair and maintenance, and enhancement costs. There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, on both infrastructure and non-infrastructure assets, meet the relevant criteria for capitalisation. The level of capital expenditure decreased in the year to £246m (2015:£302m) which was expected given the reduced capital projects activity during the first year of the investment period. The Committee were satisfied that the judgements made and the amounts capitalised were appropriate.

Provision for impairment of trade receivables

The level of provision required is based on an assessment of historical cash collection performance, having regard to ongoing economic uncertainty and the reform of the state welfare system. A recent minor increase in cash collections as a result of ongoing initiatives to improve performance was also taken into account. In making its recommendation to the Audit Committee, management examined cash collection performance for measured and unmeasured customers during 2015-16, concluding that Welsh Water could ultimately expect to collect some 48% of (non billed in advance) debt outstanding at 31 March 2016 (2015: 47.5%). Considering all the historical collection information, the Audit Committee agreed that Welsh Water's bad debt provision be set at £85 million (2015: £79million) which generated a bad and doubtful debt charge for the year ("trade receivables impairment") of £27 million (2015: £29 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 to be applied to the future liabilities and future inflation of those liabilities. 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 KPMG who noted that the assumptions were within an acceptable range, albeit being slightly more optimistic than their central assumptions. These generated an IAS 19 and balance sheet deficit of £54 million, an increase of £20 million since March 2015, largely as a result of changes in the discount rate, reflecting a reduction in expectations for long term interest rates. The Committee concluded that the assumptions used were acceptable for the purposes of the accounts.

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 that two immaterial adjustments had been made to the original valuations arising from the KPMG audit procedures. The total balance sheet liability at 31 March 2016 amounted to £426 million (2015: £422 million). The Committee agreed that this was a reasonable figure to include in the accounts.

Revenue Recognition including accrued income on metered sales

Revenue represents the income receivable for services provided; where services have been provided but no invoice raised an estimate of the value is accrued and included in revenue. From March 2015 the new billing system Rapid has calculated the measured income accrual on an individual meter basis. At 31 March 2016 the estimate is £64.9m, a decrease of £1.7m since the prior year end. Management reviews the assumptions used in the accrual including volume estimates and charges applied, and the Committee was satisfied that the approach taken was consistent and acceptable for the purposes of the accounts.

Other matters

The committee also considered non-recurring events, most notably the management decision to revalue the asset base to Ofwat's Regulatory Capital Value ("RCV") during the year. This has resulted in a £1,248m revaluation to fixed assets during the year, representing management's best estimate of the value of the asset base as at 31 March 2016.

Other activities of the Audit Committee

During 2015-16, as in previous years, two of the meetings of the Audit Committee focused on reviewing the Group's preliminary and interim financial results and related areas of judgement and accounting policy.

The Audit Committee continues to rely on the active role played by the Business Assurance (internal audit) function. The Committee reviews and approves the Business Assurance plan of work for the year and reviews progress against the plan. The Business Assurance function also works closely with the external auditors and the Compliance team.

During 2015-16, the Committee also used private meetings to review investigations of several issues raised by whistleblowers from within and outside the business, using the whistleblower policy, which protects individuals making relevant disclosures. The outcome of the ensuing investigations has led to changes in structure and processes, and in some cases there have been associated disciplinary investigations realting to serious failures to follow key company policies.

The role of Business Assurance is to provide assurance and to advise the Executive team 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 and assurance from Welsh Water's Reporter. The Reporter provides independent assurance in relation to the accuracy and completeness of regulatory reporting. During 2015-16 this was Black & Veatch. However, Jacobs were appointed as the company's Reporter for an initial period of 3 years from the 14th of April and they have been involved in providing independent assurance on the processes associated with reviewing the non-financial regulatory data contained within the 2015 -16 Annual Performance Report. Attention has focused in particular on the internal assurance processes put in place to support reporting against the company's Measures of Success contained within the PR14 Final Determination.

Other topics reviewed by the Committee in 2015-16 included

- IT disaster recovery arrangements;
- progress of the business plan for IT security, including reviewing the publicly available information for reported IT security incidents affecting other businesses;
- controls in place to ensure accurate and complete reporting to regulators;
- controls and processes in place to ensure risk management across the business;
- treasury policies and controls, including changes to bank mandates to reflect the changes to the Group's corporate structure;
- the terms of reference for the Audit Committee, including changes necessary as a result of changes in corporate governance best practice.

Our policy is that the external auditors will not generally be used for internal audit services, and that all non-audit work above £250,000 will generally be the subject of a prior competitive tender process. In the event that the auditors provide non-audit services, auditor objectivity and independence is safeguarded by means of a formal process of approval by the Audit Committee, or in an urgent situation, by the Chair of the Audit Committee. The figures for audit and non-audit work paid to each of PwC and KPMG, respectively, during 2015-16 appear on page 125 of the Financial Statements section.

This year, approximately £268,000 (approximately 61% 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 on the implementation of the retail plan in the retail division of the business (PwC) and pensions consultancy and support for market opening assurance processes (KPMG). In each case, the Audit Committee or the Chair of Audit Committee was consulted before the instruction was given to the audit firm.

Audit plans for both internal and external audit have been approved for 2016-17 and are focused on those areas identified as being of greatest risk to the business. The Committee has also met privately 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 and the Group's other processes of internal control continue to operate effectively and independently.

The annual Board effectiveness review for 2015-16 was extremely positive in relation to the Audit Committee, but suggestions for improving risk management and involving operational teams in devising the internal audit strategy have been followed up during the year. The Committee also regularly reviews the effectiveness of the external auditors, and considers ways to improve focus and value for money.

John Warren
Chair of the Audit Committee

3 June 2016

REPORT FROM THE CHAIRMAN OF THE QUALITY AND ENVIRONMENT COMMITTEE (QEC)

Chairman: Stephen Palmer

Members: Robert Ayling, Graham Edwards, Joanne Kenrick, Chris Jones, Peter Perry

Independent Scientific Advisors: Steve Brown (Environment), Andrew Davies (Water)

The purpose of the Committee is to identify and manage risks to the business arising from operational, environmental and Health & Safety related issues. The Committee provides oversight of the management and mitigation of these risks on behalf of the Board and monitors the operational performance of the company on a quarterly basis.

The Committee is responsible for:

- ensuring that the company fulfils its public health responsibilities for the provision of safe, clean drinking water and waste water sanitation in line with all statutory standards.
- reviewing and monitoring the company's H&S performance and improvement plans.
- 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.
- assessing whether the company has appropriate strategies and resources to meet its statutory obligations.
- reviewing the company's plans for key areas such as AMP investment proposals for water and waste water service areas.
- encouraging the company to assess and adopt appropriate new technology or other innovation that will improve service to customers and the environment.
- ensuring the company has adequate emergency and security arrangements in place in line with current statutory guidance such as CNI and SEMD standards.

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 meets at various sites across the company's supply area. In 2015-16, these sites included Llandegfedd reservoir, Elan Valley, Glaslyn water analysis laboratory, Five Fords waste water treatment works, and Sluvad water treatment works to visit the valve operation test rig.

QEC meets key stakeholders on behalf of the Board, especially senior personnel from regulators such as the DWI and NRW.

QEC reviews the detail of long-term operational strategies. Water and Environment 25 year visions were presented to QEC in December 2015.

The Committee also reviews the findings of investigations into any water quality, environmental or customer service failure. Serious Incident Reviews are undertaken by the Chief Executive and Chief Operating Officer who meet with the relevant Managing Director for those failures deemed serious by the Committee. A report is produced detailing root cause, lessons learnt and actions to follow. During 2015-16 Serious Incident Reviews were carried out in respect of incidents at Cwm Dulyn, Llyswen and Broomy Hill.

The committee maintains oversight of the programmes of risk management and of internal and external audits. The committee is responsible for reviewing operational risks on our risk register.

The topics covered by the Committee in 2015-16 included:

- water quality
- Mean Zonal Compliance issues
- high pressure pipelines
- hygienic practices
- Customer Minutes Lost
- customer service
- leakage
- external flooding
- health & safety issues
- Event Duration Monitoring
- renewable energy
- environmental performance and considering the impact of likely future developments
- innovation
- data analysis

Professor Stephen Palmer
Chair of the Quality and Environment Committee

3 June 2016

Stephen Palmer,
Chair of QEC and
Peter Bridgewater,
Finance and
Commercial Director

REMUNERATION COMMITTEE REPORT

Chair: Anna Walker[1]

Members: Menna Richards, John Warren, Robert Ayling

On behalf of the Board, I am pleased to present my first Directors' Remuneration Report since becoming Chair of the Remuneration Committee in July 2015. Since appointment, I have sought to ensure, via the provision of formal training and informal discussions, that the Committee fully understand their role and responsibilities, best practice remuneration governance and the incentive arrangements currently in place for the Executive Directors and the wider executive team. Going forward, we will seek opportunities to simplify remuneration arrangements and also take into account the pensions changes that are currently impacting all members of the Group's defined benefit pension scheme, the DCWW Pension Scheme.

The 2015-16 Directors' Remuneration Report sets out details of the remuneration policy for Executive and Non-Executive Directors, describes how the remuneration policy is implemented and discloses the amounts paid relating to the year ended 31 March 2016.

In line with best practice, the Directors' Remuneration Report includes the following:

— a Remuneration Policy Report (pages 86-88). Our Remuneration Policy received binding Member approval at the 2015 Annual General Meeting. The Committee is satisfied that the policy remains appropriate and fit for purpose and intends that it will cover a three year period to the 2018 Annual General Meeting;

— an Annual Report on Remuneration (pages 89-95) which describes how the Remuneration Policy was implemented for 2015-16 and how we intend to apply it for 2016-17. The Annual Report on Remuneration together with this annual statement will be put to an advisory Member vote at the 2016 Annual General Meeting.

REMUNERATION PRINCIPLES

The Committee has agreed a set of overarching principles to be applied in the context of the consideration of remuneration policy issues as these affect the Group. These principles provide the structure for how we design and implement the remuneration policy for the Executive Directors and the wider executive team:

— remuneration should reward/incentivise the long term interests of the company and reflect its agreed future strategic approach;

— remuneration should align the interests of Directors and employees with the company's customers;

— remuneration should be focussed on the issues of key concern to the company—water and environmental quality, customer service and financial performance;

— remuneration should reflect Dŵr Cymru's aim to be one of the best performing companies in the sector;

— remuneration targets should be stretching both in relation to past performance and to other companies in the sector and should be demonstrably robust. While some targets are annual, they should also align with the company's longer term strategic and regulatory objectives;

— remuneration is intended to incentivise management in the absence of shareholders and share options;

— remuneration should be fair and competitive both in relation to the sector and internally so as to attract and retain high calibre employees;

— a significant proportion of remuneration should be variable so as to achieve the right balance in relation to incentivising risk taking;

— the remuneration structure should be sufficiently clear so that those affected by it understand what it is aiming to achieve;

— when formulating remuneration arrangements for the Executive Directors and the wider Dŵr Cymru Executive team, the Committee will consider the remuneration of the employee base across the business and broader social, environmental and governance issues; and

— remuneration will be transparent to Glas Cymru Members and subject to their regular approval.

PERFORMANCE AND REWARD FOR 2015-16

Remuneration paid to the Executive Directors in respect of the financial year ended 31 March 2016 was as follows:

- a base salary (which had been increased by 1.5% in April 2015) plus pension or equivalent and some modest benefits;
- under the Annual Variable Pay Scheme (AVPS) 2015-16 awards have been made equivalent to 26.7% of base salary for performance against the Customer and Compliance element of the scheme, 27.6% for Operating Cost Performance and between 16% to 17% against Strategic (Annual Focus) and Personal objectives, making a total award of between 70.3% and 71.3% of base salary. This compares with total award of 79.4% of salary for performance in 2014-15; and
- under the Long Term Variable Pay Scheme 2015 (LTVPS), awards may be made under the performance periods for the two elements of the scheme: Customer Service and Customer Value (see page 90). 2015-16 was the first year of the AMP6 five-year plan. Welsh Water's ranking in the Ofwat SIM league table for 2015-16 will not be known until later this summer. However, it is forecast that Welsh Water will be ranked 2nd and a provisional award of 22.5% of salary is being made under the Customer Service Award, which is calculated on a rolling three year average Service Incentive Mechanism (SIM). (See page 92);
- for the customer value element of the scheme measured for the year to 31 March 2016, a payment of 24% of salary has been made.

1. James Strachan was Chair of the Remuneration Committee until he stepped down as a Non Executive Director on 3rd July 2015

IMPLEMENTATION OF REMUNERATION POLICY FOR 2016-17

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.

Key points in relation to the implementation of remuneration policy for Executive Directors for the financial year ending 31 March 2017 are:

- salaries were increased by 1.5% in April 2016. This is the same as the 1.5% general pay award received by employees;
- under the AVPS the maximum that can be earned in 2016-17 remains at 100% of salary. The Scheme will continue to focus on customer, compliance, cost and personal objectives, as well as a number of other critical measures of success; and
- under the LTVPS the overall maximum that can be earned in the AMP6 five year regulatory period is unchanged at 300% of salary (i.e. 60% per annum). Half of the LTVPS will remain dependent on customer service and half on customer value.

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. The inclusion of withholding and recovery provisions in our incentive arrangements further mitigates risk. The balance of short and long-term incentives promotes a performance culture and ensures that remuneration levels rise and fall depending on achievement against the key performance indicators (KPIs) of the business. 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.

STAKEHOLDER ENGAGEMENT

The Committee values dialogue with Glas Members and other stakeholders on the issue of executive remuneration. The Annual Report on Remuneration and this annual statement will be subject to an advisory vote by Members at the forthcoming Annual General Meeting.

Anna Walker

Anna Walker
Chair of the Remuneration Committee

3 June 2016

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 2013 and is fully compliant with provisions of The UK Corporate Governance Code ('the Governance Code').

POLICY REPORT

Key parts of the Policy Report which was approved by Members at the 2015 Annual General Meeting have been included again in this report for the purposes of clarity and transparency. The original Policy Report, approved at the 2015 Annual General Meeting, can be found on pages 76-78 in the 2015 Report and Accounts on the Company's website (dwrcymru.com).

Remuneration Policy

The principles and framework of the current Remuneration Policy were approved by Members at the Annual General Meeting on 3 July 2015 and became effective from that date.

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 commenced 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; and
- 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 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 discusses remuneration issues with Members at Members' meetings and values their input in helping to shape Welsh Water's Remuneration Policy.

Figure 1 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.

Figure 1: Components constituting the Executive Directors' remuneration packages

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary	To help recruit, retain and motivate high calibre employees.	Normally reviewed annually and any increases applied with effect from 1 April. Review reflects: —role, experience and performance; —wider economic conditions; —increases awarded throughout the rest of the broader workforce; and —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 are 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 Chief Executive and the Chief Operating Officer participate in the DCWW 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 The outturn determined by the Remuneration Committee after the year end based on performance against targets and are: —paid as cash; —not pensionable; Clawback provisions apply in the following circumstances: —restatement of accounts; —material misrepresentation; and —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 well aligned to the Business Plan themes of Customer, Compliance and Cost with additional annual focus and personal targets. See page 89

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
LTVPS	—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: —rolling three year relative SIM performance; —combined measure of the growth in Reserves and Transfers to the Customer Reserves. Clawback provisions apply in the following circumstances: —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 2020.	50% based on relative SIM performance 50% based on financial performance See page 89
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 must 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 Executive Director appointments	—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 five 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	—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 month 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.			

Discretions retained by the Remuneration Committee

The Remuneration Committee operates the AVPS and the LTVPS according to the rules of each respective scheme and consistent with normal market practice, including flexibility in a number of regards. This flexibility allows the Remuneration Committee to take account of any serious safety or reputational issues or significant deterioration of performance.

ANNUAL REPORT ON REMUNERATION

Remuneration Policy for Executive Directors in more detail

Salary

Following a review in March 2016 the Remuneration Committee has set the base salaries for the Executive Directors for 2016-17 (effective 1 April 2016) shown in figure 2. This mirrors the 1.5% increase awarded to employees on 1 April 2016 in accordance with the five year pay deal agreed with the Company's three recognised trade unions (GMB, UNISON and UNITE) in 2015. Details of Executive Directors' base salaries within Welsh Water and the Water Industry generally were considered during negotiations.

Figure 2 Executive Director's base salaries

	Effective 1 April 2015	Effective 1 April 2016
Chris Jones	£288,261	£292,585
Peter Perry	£232,943	£236,437
Peter Bridgewater	£232,943	£236,437

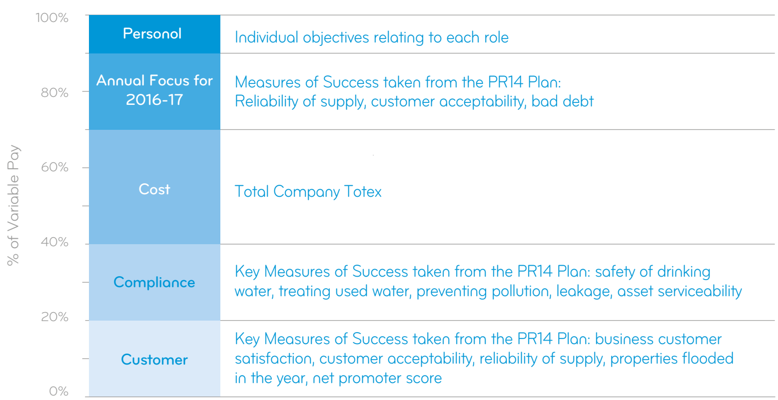
The fees payable to Non-Executive Directors were reviewed in March 2015 and subsequently in March 2016. No change was made following either review resulting in fees being frozen at the 2014 levels.

Annual Variable Pay Scheme (AVPS)

The maximum variable pay that Executive Directors can earn under the AVPS in 2016-17 is unchanged and equates to 100% of base salary. The achievement of variable pay is assessed across five components, consistent with how the AVPS was operated in 2015-16, as illustrated in figure 3. Specific targets for 2016-17 have not been disclosed as they are considered commercially sensitive but will be disclosed retrospectively next year.

The Customer and Compliance measures which we have selected for the AVPS are intended to place significant emphasis on the areas of prime importance from the PR14 Business Plan and to maximise the Annual Focus within the scheme. In addition, each year the Board and Remuneration Committee will choose a small number of measures 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 used is Totex (operating and capital expenditure) as this is a comprehensive and simple measure of expenditure and matches how company budgets are 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 Reserves (regulatory capital value less net debt) and Transfers to Customer Reserves (representing amounts available for return of value to customers) over the regulatory period. The increase in Reserves (as a measure of financial position) and the transfers to the Customer Reserves (as a measure of financial flows) calculated separately but added together captures the total value generated for customers (returned and retained) by the company. Ultimately, this is the most important financial objective for the Executive Directors. This combined measure remains company specific and measures performance against Company set targets which are aligned with the five year Plan; and
- a 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 similar 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.

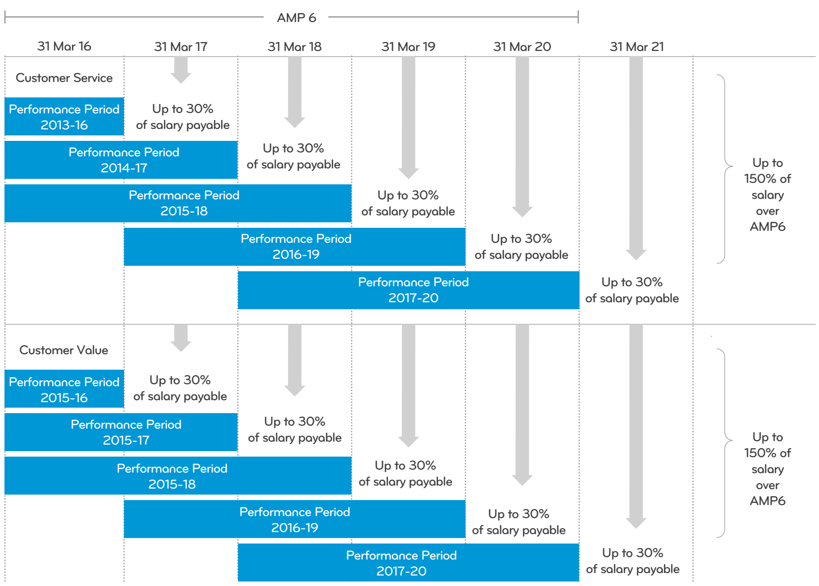
Details of payments made under the LTVPS for 2015-16 are set out in figure 6 overleaf.

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 Reserves and transfers to Customer Reserves) at 31 March 2020 (the end of the AMP6 period) compared to targets.
Rationale for selected measures	Ofwat's SIM measure of customer experience which is independent, objective and measurable, and 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	Three financial years immediately prior to the financial year in which an award is granted	1 April 2015 to 31 March 2020
Performance target[2,3,4]	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 three 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 £114 million, £133 million and £129 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 influence 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.
4. The Customer Value targets for the first three performance periods have been amended from those originally disclosed in last year's remuneration report. The targets as disclosed last year were based solely on figures relating to transfers to Customer Reserves and excluded any figures relating to increase in Reserves. However the intention at the outset, and consistent with the 2014/15 disclosure to Members, was to measure the total value created (i.e. to include any increase in Reserves) and, as such, the targets have been increased to include this value.

Figure 5: LTVPS performance period



WHAT WAS PAID IN 2015-16 AND LINK BETWEEN PAY AND PERFORMANCE

Payments made to Directors in 2015-16

Figure 6 sets out the Directors' emoluments in respect of the year ended 31 March 2016 in comparison to year ended 31 March 2015.

Figure 6: Payments and benefits earned by Directors in 2015-16

	Salary/Fees		Taxable benefits[1]		Other		AVP[2]		LTVPS[3]		Total	
	2014/15	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**
Chris Jones	280,417	288,261	860	948	-	-	222,651	202, 647	186,092	134,041	690,020	625,897
Peter Bridgewater	133,875	232,943	502	948	55,000	12,000	106,297	166,088	-	108,318	295,674	520, 297
Peter Perry	229,500	232,943	860	948	-	-	182,223	166,088	159,295	108,318	571,878	508, 297
Robert Ayling	212,000	212,000									212,000	212,000
John Bryant	22,900	-									22,900	-
Graham Edwards	58,000	58,000									58,000	58,000
Joanne Kenrick		24,167										24,167
Stephen Palmer	58,000	58,000									58,000	58,000
James Strachan	58,000	15,130									58,000	15,130
Menna Richards	65,133	68,700									65,133	68,700
Anna Walker	58,000	58,000									58,000	58,000
John Warren	58,000	58,000									58,000	58,000
Total	1,233,825	1,306,144	2,222	2,844	55,000	12,000	511,171	534,823	345,387	350,677	2,147,605	2,206, 488

	Pension[4]	
	2014/15	**2015/16**
Chris Jones	283,668	142,152
Peter Bridgewater	14,726	25,624
Peter Perry	30,904	64,514
Total	329,298	232,290

	Total[5]	
	2014/15	**2015/16**
Chris Jones	973,688	768, 049
Peter Bridgewater	310,400	545,921
Peter Perry	602,782	572,811
Non Exec Directors	590,033	551,997
Total	2,476,903	2,438,778

Notes to table

The information in figure 6 has been audited by KPMG.

Changes of director: Joanne Kenrick was appointed a Non-Executive Director on 1 November 2015. James Strachan stood down from the Board on 3 July 2015. John Bryant stood down from the Board on 4 July 2014. The figures shown in the table above are pro-rated for the period in office.

1. Taxable benefits relate to private health cover.
2. Please see Determination of AVPS Outcome on page 92. Performance against AVPS targets in 2015-16 resulted in a lower payment (between 70.3% and 71.3% of salary) compared to 2014-15 (79.4%).
3. Please see Determination of LTVPS Outcome on page 92.
4. Pension contribution for Peter Bridgewater is a cash alternative allowance.
5. The highest-paid Director in 2015-16 was Chris Jones who received £768,049 (2014-15: £973,688).

Determination of 2015-16 AVPS outcome

For 2015-16, the Remuneration Committee measured performance against each target, linked directly to the achievement of the Company's strategy, as follows in the table below. Approved performance in 2015-16 resulted in an AVPS award of between 70.3% and 71.3% compared to 79.4% for the Executive Directors in 2014-15.

Figure 7: AVPS 2015-16 outcome (audited)

Measure	Metric	Weighting	Summary of targets (% of salary)	Result	% of maximum
Customer	Key Measures of Success taken from the PR14 Plan: business customer satisfaction, customer acceptability, reliability of supply, properties flooded in the year, net promoter score	20%	Threshold 5% Target 12% Stretch 20%	11.1%	55.5%
Compliance	Key measures of success taken from the PR14 Plan: safety of drinking water, treating used water, preventing pollution, leakage, asset serviceability	20%	Threshold 8% Target 13.6% Stretch 20%	15.6%	78.0%
Cost	Total Company Totex	30%	Threshold 6% Target 18% Stretch 30%	27.6%	92.0%
Annual focus measures	Measures of success taken from the PR14 Plan: Reliability of supply, customer acceptability, bad debt	20%	Threshold 4% Target 12% Stretch 20%	8%	40%
Personal	Individual objectives relating to each role	10%		8% - 9%	80% - 90%
Total		100%		70.3% - 71.3%	70.3% - 71.3%

Determination of 2015-16 LTVPS outcome (audited)

Welsh Water's SIM rating relative to the SIM rating of the other water and sewerage companies over the three year performance period to 31 March 2016 will not be known until later in the year. At this time, it is forecast to be ranked 2nd. As a consequence, a provisional award of 22.5% is payable. The maximum potential is 30% of salary.

For the Customer Value element of the scheme measured from 1 April 2015 to 31 March 2016, a payment of 24% of salary has been made. This has been based on the Remuneration Committee's determination that total value generated for LTVPS purposes in the year ended 31 March 2016 was £118 million against a target of £114 million (and a stretch of £124 million). The reported total value created is £197 million which, for the purposes of assessing LTVPS performance, has been adjusted downwards by £79 million to reflect higher than expected inflation during the year and the deferment of certain capital schemes to future years.

Pension benefits

For the period 1 April 2015 to 31 March 2016 Chris Jones and Peter Perry were active members of the DCWW Pension Scheme ('the Scheme') which is a defined benefit pension arrangement.

Benefits accrue at 1/45th of Final Pensionable Salary per year of Pensionable Service for Chris Jones and 1/60th of Final Pensionable Salary for each year of Pensionable Service for Peter Perry (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 the member.

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

Other Benefits

Executive Directors have the benefit of private health cover. Chris Jones and Peter Perry also have permanent health insurance.

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 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

Year ending 31 March 2016

	Normal Retirement Age	Accrued pension at 31 March 2015	Capitalised value of accrued pension at 31 March 2015	Revalued capitalised value of accrued pension at 31 March 2015[1]	Accrued pension at 31 March 2016	Capitalised value of accrued pension at 31 March 2016	Member contributions paid during the year 2016	Pension Input Amount (net of member contributions 2016)[2]
Chris Jones	60	£125,072	£2,501,449	£2,531,466	£134,978	£2,699,562	£25,943	£142,152
Peter Perry	60	£128,981	£2,579,622	£2,610,577	£134,803	£2,596,056	£20,965	£64,514

Benefit Notes

1. Increased by the actual CPI growth figure at the previous September —2.7% for the 2015 disclosure period and 1.2% for 2016
2. Based on the capitalised value of the 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

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 seven years.

Figure 9: Customer Reserves over seven years to 31 March 2016

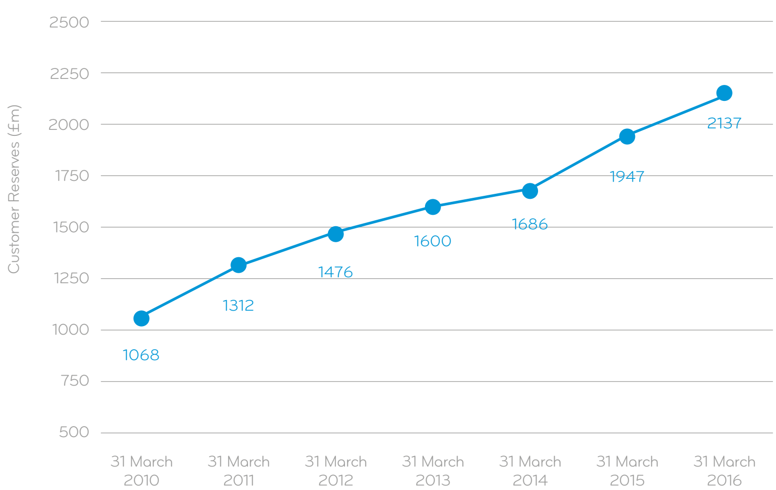


Figure 10: Overall pay and performance

	2010	2011	2012	2013	2014	2015	2016
Total remuneration for Chief Executive (Chris Jones)	-	-	-	-	£741,569	£973,688	£768,049
Total remuneration for Managing Director (Nigel Annett)	£390,320	£665,965	£677,770	£590,210	£709,890	-	-
AVPS award (Chris Jones)	-	-	-	-	51.1%	79.4%	70.3%
AVPS award (Nigel Annett)	38.2%	76.3%	77.6%	60.6%	49.9%	-	-
LTVPS for AMP6	-	-	-	-	-	-	46.5%
LTVPS for AMP5	-	25.0%	40.0%	50.0%	78.6%	90.6%	-
LTVPS (RLTIS) for AMP4	19.5%	-	-	-	-	-	-

For 2014 full financial figures have been provided for Chris Jones and Nigel Annett and do not solely relate to the period as Chief Executive/ Managing Director

RLTIS: 'Rolling Long Term Incentive Scheme' in place during AMP4

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 2016 compared to 2015.

Figure 11: Relative importance of spend on pay

	2015	2016	Change	
	£m	£m	£m	%
Total expenditure[1]	833.9	754.8	(79.1)	(9.5%)
Employee remuneration costs	122.6	127.2	4.6	3.8%
Customer Reserves[2]	1,947	2,137	190	9.8%
Executive Director remuneration costs	1.89	1.89	0.0	0.0%

1. Operational expenditure, capital expenditure and financing costs.
2. Regulatory capital value less net debt. Customer equity metric included to enable comparisons with shareholder owned companies.

Figure 12: Percentage change in CEO's remuneration compared with other employees

	Chief Executive % change from 2014-15	Employees % change from 2014-15
Salary	1.5%	4.4%
Benefits	0%	0%
Annual Variable Pay	(9%)	(9%)

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

Details of Directors' service contracts and letters of appointment

Details of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2016 are as follows:

Chris Jones	11 May 2001
Peter Perry	1 August 2006
Peter Bridgewater	1 September 2014
Robert Ayling	3 October 2008
Stephen Palmer	26 October 2009
Menna Richards	22 November 2010
Anna Walker	3 March 2011
John Warren	3 May 2012
Graham Edwards	1 October 2013
Joanne Kenrick	1 November 2015

2. In 2015-16, NBS advised on the benchmarking of Directors' and executive team remuneration and provided general remuneration advice to the Remuneration Committee. NBS also provided advice in relation to non-executive director fees, but has no other connection with the Group. During 2015-16, NBS received fees amounting to £64,983 in relation to advice provided to the Remuneration Committee. The Group also sought advice from KPMG (pensions) and information from Quantum Actuarial LLP (pension data).

HOW PAY IS DETERMINED

Remuneration Committee

The Remuneration Committee is chaired by Anna Walker. James Strachan stepped down from the Board following the 2015 AGM at which point Anna took over as chair. In 2015-16, the other members of the Committee were Robert Ayling, Menna Richards 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). The Remuneration Committee was convened on three occasions in 2015-16.

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 the executive team together with the Director of Environment, Director of Capital Delivery and Director of Procurement and Estates; 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 long-term success of the Company.

In 2015-16, 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 and the Committee is satisfied that the advice it receives remains independent and objective.[2]

During 2015-16, the activities of the Remuneration Committee included: approving the 2015 Remuneration Report; assessing performance achieved against the conditions attached to the 2014-15 AVPS and LTVPS and agreeing awards to be made to participants; reviewing salaries and AVPS for the broader executive team; consideration of remuneration and pension trends and best practice; determining the salary of the Executive Directors and the Chairman's fee for 2015-16 and reviewing the Committee's terms of reference; and determining the total remuneration for the Managing Director of DCCS Ltd., now Managing Director of Retail Services.

At last year's AGM, Members voted in favour of the Annual Report on Remuneration, the Remuneration Policy and the design of the LTVPS.

DIRECTORS' REPORT

This Report should be read in conjunction with the Strategic Report, Corporate Governance Report and the Audit Committee Report, which collectively constitute the Directors' Report. For further information, see contents list on page 65.

DIRECTORS

The names and brief biographical details of the Directors as at March 2016 are given on page 67 of this document

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All Directors served throughout the year ended 31 March 2016, except Joanne Kenrick who joined in November 2015. All Directors will stand for re-election at the 2016 AGM with the exception of Robert Ayling who will stand down from the Board. This will meet the requirement under our Articles of Association for one third of Directors to retire by rotation. Alastair Lyons will stand for election for the first time as Non-executive Director to replace Robert Ayling. 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 2016 AGM which will take place on Friday 8 July 2016.

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 2016 contained in this Annual Report. A resolution will be proposed at the 2016 AGM to approve the 2016 Remuneration Report.

We publish our Corporate Governance Code on our website. During the year, the Directors considered whether the company was a going concern and provided a long-term viability statement, available on page 63.

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 2016, the Group had 3,042 employees. Our success is dependent upon our having highly committed and motivated people. We are committed to 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.

MODERN SLAVERY ACT 2015

We are committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking.

Our Anti-Slavery Policy sets out Glas Cymru's commitment to acting ethically and with integrity in our supply chain arrangements, and the safeguards we have implemented to require that our suppliers and contractors comply with the Modern Slavery Act.

As part of our procurement process, any potential contractor or supplier will be required to confirm that they comply with the Modern Slavery Act and, if appointed, we require that they flow down the requirements we place on them to any sub-contractors they use to provide their services to us. Our terms and conditions will include contractual provisions relating to compliance with the Modern Slavery Act. We will implement these new provisions in all new agreements, upon renewal of existing agreements and upon issue of purchase orders. We have written to our existing suppliers to alert them to the requirements of the Act and our policy in this area.

Our Human Resources team maintains recruitment polices to protect against slavery and/or human trafficking in our own operations.

To date we have not found any evidence of slavery or human trafficking in our current supply chain.

THE DIRECTORS CONSIDER THAT THE ANNUAL REPORT AND ACCOUNTS

(consolidated financial statements of Glas Cymru), taken as a whole, are fair, balanced and understandable and provide 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 Finance and Commercial Director to ensure consistency
- reviews of drafts were undertaken by members of the Executive team and a verification process involving 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 2016 and covers likely future developments.

Glas Cymru Anghyfngedig (Company number 03975719) is an unlimited company incorporated in England and Wales. Our registered office is Pentwyn Road, Nelson, CF46 6LY.

During the year Glas Cymru Cyfyngedig has been re-registered as Glas Cymru Anghyfyngedig and Glas Cymru Holdings Cyfyngedig has been created to be the holding company for the Glas Cymru Group and ultimate parent of the operational company Dŵr Cymru Cyfyngedig.

This Annual Report and Accounts document consolidates the activity and results of the (renamed) Glas Cymru Anghyfyngedig company ('Glas Cymru') and it's subsidiaries. The first Annual Report an Accounts for the new holding company, Glas Cymru Holdings Cyfyngedig, will be produced as at 31 March 2017.

There have been no activities or transactions in the new holding company (Glas Cymru Holdings Cyfyngedig), or its subsidiaries, since incorporation, other than those covered by this Annual Report and Accounts.

More information on Principal Activities can be found on page 14. 14

FINANCIAL PERFORMANCE

The Group has delivered a strong financial performance during the year to 31 March 2016; has continued to deleverage, with gearing falling from 60%-57%, and has retained its sector-leading credit ratings.

REVENUE

Glas Cymru's turnover in the year to 31 March 2016 was £743 million (2015: £753 million); a modest reduction reflects Ofwat's PR14 Final Determination pricing adjustment of -1.1%.

SUPPORTING EDUCATION

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 Discovery Centres (Elan Valley near Rhayader, Cilfynydd near Pontypridd, Cog Moors near Dinas Powys and Brenig in the Denbighshire moors), visited by over 14,000 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 31,000 pupils a year benefit from this programme.

OPERATIONAL ITEMS

Glas Cymru incurred total operational costs (excluding infrastructure renewal expenditure on maintaining our underground pipe network, depreciation and exceptional items) of £297 million (2015: £295 million); a number of specific cost increases (Retail business transformation costs, power hedging and energy contract termination costs) have been partially offset by driving efficiency savings from the insourcing of operational contracts, income from hydro assets and debt collection improvements.

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 2015-16 were £43 million (2015: £44 million). There remains significant uncertainty over future energy costs, and we have forward purchased a proportion of the estimated power requirements of the business for the four years to March 2020.

Water and sewerage companies are not permitted to disconnect supplies to non-paying domestic customers and cash collection has continued to be challenging. The high priority and increased focus on debt recovery in the Retail business has resulted in collections improvements during the year, and as a consequence the bad debt charge for the year has fallen slightly to £27 million (2015: £30 million). We are targeting customers who won't pay their bills, as opposed to those who can't pay, and the reduction comes principally from some 900 charging orders over property owned by customers, which have been secured over around £2 million of our customers' debt.

EXCEPTIONAL ITEMS

During the year a business rates refund of £20 million was received following a longstanding challenge of the 2005 water network assessment. This has been treated as exceptional due to its size.

FINANCING COSTS

Net interest payable of £123 million (excluding accounting losses on derivatives noted below) was £22 million lower than the previous year. This is principally due to the impact of lower RPI values on index-linked bonds.

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 gains in 2015-16 amounted to £39 million (2015: losses of £157 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 £18 million (See page 114). The consolidated income statement shows a profit before taxation of £77 million (2015: loss of £100 million) which takes into account the fair value and one-off finance movements, exceptional items as discussed above and the change of the valuation basis for fixed assets.

PENSION FUNDING

The statement of comprehensive income reports defined benefit pension scheme actuarial losses of £25 million (2015: £32 million) and the balance sheet liability as at 31 March 2016 was £57 million (2015: £33 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 by the closure of most sections of the scheme with effect from 1 April 2017.

NET ASSETS

The consolidated balance sheet shows net assets of £1,082 million at 31 March 2016 (2015: net liabilities of £6 million). Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £1,417 million (2015: assets of £416 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 2016 have been prepared on a going concern basis.

Information on Key Performance Indicators page 23

CAPITAL INVESTMENT

Glas Cymru's strong financial position has been built up over the last 15 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 during the year (including infrastructure renewals expenditure) was £279 million (2015: £379 million). The reduction is mainly due to a temporary slowdown in our capital construction programme at the start of the current five year regulatory period (AMP6). We will be increasing our construction programme again next year. We invested around £1.5 billion over the five year period from 2010 to 2015. This investment programme 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 current five year regulatory period (2015-2020), 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 2016 were A/A3/A from Standard & Poor's (S&P), Moody's and Fitch Ratings respectively.

As at 31 March 2016, approximately 65% of gross debt was index-linked via bonds and derivatives (2015: 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 to RCV policy is to target gearing at or around 60% and interest cover ratios commensurate with maintaining our sector leading 'A' grade credit ratings. This should help us to maintain our low risk profile giving the 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 57% by 31 March 2016 (2015: 60%) and 'customer reserves' (RCV less net debt) were £2.1 billion.

As at 31 March 2016, the Company had available total liquidity of £372 million, including cash balances of £92 million. With funding already in place for the early years of AMP6, we will seek to raise finance of around £500 million over the course of the AMP6 period to March 2020. As part of this exercise we are in the final stages of agreeing a £250 million facility with the European Investment Bank.

WATER AID

As befits our operating model, we do not engage in corporate sponsorship but we continue to provide support to WaterAid.

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 country through a socially and environmentally responsible approach to our day-to-day activities, and by helping the communities we serve.

COMMUNITY INVESTMENT

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 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.

This year we year we have included an impact statement in our Strategic Report showing our value added activities in the community.

Impact statement page 16

ACCESS AND RECREATION

We are the custodian of a national asset in Wales—some 40,000 hectares (99,000 acres) 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 sporting, recreational and leisure facilities.

WORKING WITH OTHERS

To help us provide our services and safeguard the environment, we have continued to collaborate with key partners and community organisations in the delivery of a wide range of initiatives. These have including the following:

Working with Natural Resources Wales and the farming industry we have come together in partnership to tackle levels of pesticides in water. This has enabled us to provide an extensive awareness campaign with the offer of the free hire of the weed wiper, an alternative application method that reduces pesticide run-off.

We have biodiversity action plans at a number of our sites including:

- providing breeding sites for great crested grebes at Talybont in Brecon Beacons National Park;
- monitoring red squirrel numbers and working to increase number of small bird species at Llyn Brenig in North Wales;
- partnering with North Wales Wildlife Trust on their works at Gors Maen Llwyd nature reserve, next to our Llyn Brenig site;
- surveying bees around our Elan estate to improve an understanding about pollinating insects, distribution and habitat management;
- trapping moths and ecological survey at Elan Valley in mid Wales;
- monitoring woodlands on some of our sites to improve our understanding of upland woodland management.

We also work with others to maintain and enhance biodiversity, including the following:

- we contributed to the Llyn Fens LIFE Project in Anglesey, which is the largest wetland restoration project in Wales. If fenland habitats thrive, other plants and insects get a new lease of life, making them great places for local people and visitors to enjoy but are also great sources for drinking water supplies;
- as part of our current investment programme, we are working with Natural Resources Wales, Brecon Beacons National Park Authority and other stakeholders to deliver two peat restoration projects within SSSIs we partly own;
- we support charitable organisations to develop and deliver local actions that will support others to take actions that contribute to national effort to ensure 'good ecological status' of our watercourses under the Water Framework Directive;
- as part of our effort to tackle invasive non-native species, which is considered a major threat to biodiversity locally and globally, we support third sector organisations to deliver effective actions on the ground within our operational area. Two landscape projects have been supported to date, one in the Dee catchment and one in the Wye and Usk catchment.

OCCUPATIONAL HEALTH AND SAFETY

We are committed to high standards of occupational Health and Safety and over the period 2015-16 our like-for like performance improved with fewer RIDDOR accidents. More information on our health and safety strategy and performance is provided in our 2016 Occupational Health and Safety Report which is available on our website: glascymru.com.

INNOVATION

The Independent Environmental Advisory Panel (made up of regulators, academics and environmental stakeholders) continues 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 to tap into the expertise and resources available in such bodies and to 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 2016 Innovation conference.

POLITICAL DONATIONS

It is Board policy not to make donations to political parties or to incur political expenditure and during 2015-16 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 measures this through the calculation of our operational carbon emissions.

These emissions are dominated by grid supplied energy (electricity and gas) accounting for 84% of the total. In 2015-16 our operational carbon emissions fell 11% to 230 ktCO2e from 261 ktCO2e* in 2014-15. There were three key components to this change:

- the carbon content of grid supplied electricity fell 6%, reversing much of the previous year's rise and contributing to the overall fall in emissions;
- consumption of electricity rose 3.5% to 467 GWh, an unwanted record high, as a result of increased pumping in the Waste Water business during the very wet winter. However, we generated 21% of this volume from our own renewable energy sites helping to mitigate against any rise in externally sourced electricity. The increase in electricity consumption before the impact of energy generation would have been equivalent to 8 ktCO2e if it had all been imported from grid;
- renewable energy production rose to 97 GWh (60 in GWh 2014-15) with record outputs from all technologies: anaerobic digestion (45 GWh), hydro (49 GWh) and solar (3 GWh). Thirteen additional renewable energy sites came online 2015-16 included hydro turbines at Cowlyd Lower, Tyn y Waun and Dolbenmaen, nine solar arrays and the biomethane injection (gas-to-grid) plant at Five Fords. The biggest source of additional generation was the full year effect of the ex-Infinis hydro assets acquired in early 2015.

If calculated on a like-for-like basis to last year, the emissions would have fallen by 5%. Almost all of these emissions come from the operational businesses. Our offices account for under 3% of the annual total emissions.

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. This report is available in Welsh.

ANNUAL PERFORMANCE REPORT

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.

*This was amended post balance sheet date to 261 ktCO2e from 257 ktCO2e

ANNUAL GENERAL MEETING

The 2016 AGM will be held on Friday 8 July 2016 at St David's Hotel, Cardiff. The business for the AGM includes:

- the approval of the Directors' Report;
- the approval of the Financial Statements for the year ended 31 March 2016 and the approval of the Remuneration Report for the year ended 31 March 2016 and approval of the Remuneration Policy;
- the election of Joanne Kenrick and Alastair Lyons as Directors;
- 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;
- resolutions to appoint 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 2016 AGM sent to the Members of Glas Cymru with this report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have decided to voluntarily prepare a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 made under the Companies Act 2006, as if those requirements were to apply to the company. The Directors have also prepared a Corporate Governance Statement in line with the guidance issued by OFWAT.

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

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the Board

Nicola Williams
General Counsel and Company Secretary

3 June 2016

AUDITORS

KPMG replaces Price Waterhouse Coopers as auditors to Glas Cymru for the accounts for the year ended 31 March 2016. As part of the audit process we have confirmed that, as far as each Director is aware, there is no relevant audit information of which the auditors are unaware, that they have taken steps to be made aware of any such information and to establish that the Company's auditors are aware of that information. A resolution to appoint KPMG will be put to Members at the 2016 AGM.

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the company's performance.
- The strategic report includes a fair review of the performance of the business, its risks and strategy for the future.
- The Directors consider the annual report to be fair, balanced and understandable.

FINANCIAL REVIEW AND RESULTS

Independent Auditor's report to the Directors of Glas Cymru Anghyfyngedig

Report on the financial statements

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Glas Cymru Anghyfyngedig for the year ended 31 March 2016 set out on pages 114 to 146. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Revenue recognition (£743.2 million) and accrued income on metered sales (£64.9 million):

Refer to page 80 (Report from the Audit Committee), page 119 (accounting policy) and page 133 (financial disclosures).

The risk

Revenue recognition is one of the key judgemental areas for the financial statements, particularly in relation to the estimate of the revenue value of water supplied to metered customers between the last meter reading and the end of the financial year.

The calculation of revenue from metered customers and resulting accrued income derives from an estimation of volume of water used in the period, the number of customers on meters and the price per unit of water.

Our response

In this area our principal audit procedures included testing the processes and controls in place to ensure that the completeness and accuracy of both revenue recognition and the metered sales accrual were captured; performed IT controls testing over the Rapid Xtra system so that reliance could be placed upon the completeness and accuracy of the revenue recognised and the measured income accrual calculation; and performed substantive analytical reviews over the different revenue streams and accrual, taking into account key drivers of the balance, including price changes that have been agreed to the Group's published scheme of charges.

We also assessed the adequacy of the Group's disclosures of its revenue recognition.

Classification of costs between operating expenditure and capital expenditure (£245.8 million):

Refer to page 80 (Report from the Audit Committee), page 119 (accounting policy) and page 130 (financial disclosures).

The risk

The company incurs a high level of expenditure on fixed assets, including repair and maintenance, and enhancement costs. There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure, on both infrastructure and non-infrastructure assets, meet the relevant criteria for capitalisation (directly attributable to the asset, provide probable economic benefit and can be measured reliably). Due to the significant impact of the decision to classify expenses as operating or capital on both the company's profit and the balance sheet this is one of the key judgemental areas in our audit.

Our response

In this area our audit procedures included the assessment of both the company's capitalisation policy against the requirements of the accounting standards, and the application of this policy to costs incurred in the year over both infrastructure and non-infrastructure assets.
Our controls testing included selecting a sample of projects throughout the financial year to check that the classification of expenditure is subject to review and authorisation from the appropriate level within the business hierarchy.
Our substantive testing assessed the judgements made over this sample of projects and the findings of a third party assessment on capitalised items. We held discussions with management and challenged the level of capitalisation based on the company's accounting policy for classification of expenditure. We compared the level of employee and other internal expenditure incurred against prior year balances and current year budget information to identify material changes in the nature or quantum of costs capitalised, with any significant movements corroborated and investigated where necessary.

Provision for doubtful debtors (£85.3 million)

Refer to page 80 (Report from the Audit Committee), page 120 (accounting policy) and page 133 (financial disclosures).

The risk
The provision for doubtful debts is a significant risk area due to the statutory requirement to provide water to customers who will be unable to pay. The calculation is considered a key audit risk as a result of the complexity of the calculation, its subjective nature, and because of its size and the fact that any change in the balance sheet provision would directly impact profit. The provision methodology is based upon historical cash collections, and any other external impacting factors, to estimate the proportion of the year end receivables that the Group expects to receive.

Our response
In this area our audit procedures included, among others, an assessment of whether the calculation incorporated appropriate relevant information, risks and data. This included a consideration of whether the provision methodology incorporated all of the relevant information to accurately calculate the level of irrecoverable debt; a recalculation of the bad debt provision calculation to test the mathematical accuracy; testing the completeness and accuracy of the data extracted from the company's billing system used to calculate the provision; performing sensitivity analysis on a number of the assumptions made, in particular future cash collection rates, and considering the data in respect of historical cash collection trends.

We challenged the Directors' assumptions over the cash collection profiles based on our analysis of historical trends, operational performance, historic write offs, economic trends, pricing levels and the level of provisioning across the industry obtained through a KPMG bad debt benchmarking exercise that is performed across the sector. We have also considered the adequacy of the company's disclosures about the degree of estimation uncertainty involved in calculating the provision.

Accuracy of the pensions assumptions in relation to the defined benefit scheme and their impact on the pension liability (£54.5 million)

Refer to page 80 (Report from the Audit Committee), page 120 (accounting policy) and page 143 (financial disclosures).

The risk
The pensions assumptions are considered a key audit risk based upon their subjective nature, and the material impact which these can have on the profit and loss account and the balance sheet. The risk is that the assumptions used around key areas such as discount rates, retail price index, mortality rates and the expected return on equities are outside of an acceptable range, which could lead to over-or-understatement of the liability with a corresponding effect on total comprehensive income.

Our response
In this area our audit procedures included, among others, an assessment, with the help of our own actuarial specialists, of whether the assumptions used, being the discount rate, retail price index, mortality rates and expected return on equities, were within an acceptable range by comparison against external market data and assumptions made across a range of similar schemes. We have also considered whether the actuarial calculations based on the assumptions of the Directors, were based on the appropriate scheme assets and liabilities. We have also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to changes in the assumptions.

Derivative financial instrument valuations (£414.0 million):

Refer to page 80 (Report from the Audit Committee), page 121 (accounting policy) and page 136 (financial disclosures).

The risk
The Group has significant derivative financial instruments, the valuation of which is determined through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of financial instruments and the related estimation uncertainty, this is considered a key audit risk.

Our response
In this area our audit procedures included, among others, an assessment of controls over the identification, measurement and management of derivative financial instruments and assessed the methodologies, inputs and assumptions used by the Group in determining fair values; a comparison of observable inputs into valuation models such as quoted prices to externally available market data; and a recalculation of valuations utilising our own valuation specialists.

Additionally, we assessed whether the financial statement disclosures of fair value risks and sensitivities appropriately reflect the Group's exposure to valuation risk.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £10.0 million. This has been determined with reference to a benchmark of the company's gross assets (of which it represents 0.18%), which we consider to be one of the principal considerations for Members of the company in assessing its financial performance.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the company's head office in Nelson, Treharris and St. Mellons, Cardiff

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £500,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4. Our opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement is unmodified

In addition to our audit of the financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion:

- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the company; and
- 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.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of long-term viability on page 63, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the 5 years to 2021; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

In addition to our audit of the financial statements, the Directors have engaged us to review their Corporate Governance Statement in line with the guidance issued by OFWAT. Under the terms of our engagement we are required to review:

- the Directors' statements, set out on page 63 in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 72 in the Corporate Governance Report relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 107, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the company's Members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014b**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

James Ledward
for and on behalf of KPMG LLP

Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

3 June 2016

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

			2016		2015
Continuing activities	Note	£m	£m	£m	£m
Revenue			**743.2**		752.5
Operating costs:					
Operational expenditure	3		**(297.3)**		(294.7)
Exceptional items	4		**20.0**		(19.5)
Infrastructure renewals expenditure			**(58.0)**		(57.7)
Depreciation and amortisation	3		**(247.1)**		(178.5)
			(582.4)		(550.4)
Operating profit			**160.8**		202.1
Financing costs:					
Finance costs payable and similar charges	5a	**(128.7)**		(147.9)	
Finance income receivable		**5.6**		3.3	
Fair value gains/(losses) on derivative financial instruments	5b	**39.3**		(157.1)	
			(83.8)		(301.7)
Profit/(loss) before taxation			**77.0**		(99.6)
Taxation	6		**8.9**		19.5
Profit/(loss) for the year			**85.9**		(80.1)

Underlying profit for the year

	2016	2015
	£m	£m
Profit/(loss) before taxation per Income Statement	**77.0**	(99.6)
Adjustment for:		
- Fair value (gains)/losses on derivative financial statements (see note 5b)	**(39.3)**	157.1
- Depreciation charge on revalued assets (charge of valuation bases, see note 8)	**55.2**	-
- Accounting profit on lease termination	**-**	(8.4)
- Swap termination	**-**	8.5
- Exceptional items (see note 4)	**(20.0)**	19.5
Underlying profit for the year	**72.9**	77.1
Underlying profit excluding depreciation on revalued assets	**17.7**	77.1

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 (2015: £nil).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 £m	2015 £m
Profit/(loss) for the year		**85.9**	(80.1)
Items that will not be reclassified to profit or loss			
Actuarial loss recognised in the pension scheme	22	**(24.6)**	(32.2)
Related deferred tax	7	**3.7**	5.9
Revaluation of property, plant and equipment	8	**1,247.8**	-
Related deferred tax	7	**(224.6)**	-
Total items that will not be reclassified to profit or loss		**1,002.3**	(26.3)
Total comprehensive income/(expense) for the year		**1,088.2**	(106.4)

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2016

	Year ended 31 March 2016 Revaluation reserve £m	Year ended 31 March 2016 Retained earnings £m	Year ended 31 March 2016 Total £m	Year ended 31 March 2015 Total £m
(Deficit)/reserves at start of period	**-**	**(6.4)**	**(6.4)**	100.0
Profit/(loss) for the period	**-**	**85.9**	**85.9**	(80.1)
Actuarial loss net of tax	**-**	**(20.9)**	**(20.9)**	(26.3)
Revaluation net of tax	**1,023.2**	**-**	**1,023.2**	-
Transfer to retained earnings	**(45.3)**	**45.3**	**-**	-
Reserves/(deficit) at end of period	**977.9**	**103.9**	**1,081.8**	(6.4)

There were no changes in reserves of the parent company during the year (2015: none).

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2016

	Note	2016 £m	2015 £m
Assets			
Non-current assets			
Property, plant and equipment	9	**4,841.3**	3,578.4
Intangible assets	10	**105.7**	100.6
Financial assets:			
- derivative financial instruments	16	**0.2**	-
		4,947.2	3,679.0
Current assets			
Trade and other receivables	12	**544.2**	532.6
Inventories		**2.1**	2.0
Financial assets:			
- derivative financial instruments	16	**3.6**	3.7
Cash and cash equivalents	13	**135.1**	271.2
		685.0	809.5
Total assets		**5,632.2**	4,488.5
Liabilities			
Current liabilities			
Trade and other payables	14	**(527.4)**	(539.3)
Financial liabilities:			
- borrowings	15	**(73.5)**	(151.7)
- derivative financial instruments	16	**(24.0)**	(21.5)
Provisions for other liabilities and charges	18	**(3.2)**	(6.1)
		(628.1)	(718.6)
Net current assets		**56.9**	90.9
Non-current liabilities			
Trade and other payables	14	**(159.2)**	(99.8)
Financial liabilities:			
- borrowings	15	**(2,869.7)**	(2,998.4)
- derivative financial instruments	16	**(393.8)**	(404.3)
Post employment benefits	22	**(56.5)**	(32.5)
Provisions for other liabilities and charges	18	**(11.3)**	(21.5)
		(3,490.5)	(3,556.5)
Net assets before deferred tax		**1,513.6**	213.4
Deferred tax - net	7	**(431.8)**	(219.8)
Net assets/(liabilities)		**1,081.8**	(6.4)
Reserves/(deficit)		**1,081.8**	(6.4)

The financial statements on pages 113 to 146 were approved by the Board of Directors on 3 June 2016 and were signed on its behalf by:

C A Jones
Chief Executive

P J Bridgewater
Finance and Commercial Director

PARENT COMPANY BALANCE SHEET AS AT 31 MARCH 2016

	Note	2016 £m	2015 £m
Assets			
Non-current assets			
Investment in subsidiaries	11	**-**	-
Trade and other receivables	12	**3.4**	3.4
		3.4	3.4
Current assets			
Cash and cash equivalents	13	**0.1**	0.1
		0.1	0.1
Liabilities			
Current liabilities			
Trade and other payables	14	**(3.5)**	(3.5)
		(3.5)	(3.5)
Net assets		**-**	-
Reserves			
Retained earnings		**-**	-
Total reserves		**-**	-

The financial statements on pages 113 to 146 were approved by the Board of Directors on 3 June 2016 and were signed on its behalf by:

C A Jones
Chief Executive

P J Bridgewater
Finance and Commercial Director

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

	Note	**2016** £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	19a	**368.9**	381.0
Interest paid	19b	**(128.9)**	(123.5)
Corporation tax received		**0.2**	1.6
Net cash generated from operating activities		**240.2**	259.1
Cash flows from investing activities			
Interest received		**5.6**	3.2
Purchase of property, plant and equipment		**(195.0)**	(266.6)
Purchase of intangible assets		**(25.0)**	(25.2)
Acquisition of subsidiary		**-**	(19.7)
Grants and contributions received		**16.7**	16.3
Net cash outflow from investing activities		**(197.7)**	(292.0)
Net cash flow before financing activities		**42.5**	(32.9)
Cash flows from financing activities			
Long-term loans received		**-**	160.0
Bank account movements		**(80.4)**	77.9
Term loan repayments		**(46.6)**	(15.9)
Finance lease principal payments		**(51.4)**	(57.4)
Other loan repayments		**(0.2)**	(0.2)
Net cash inflow from financing activities		**(178.6)**	164.4
(Decrease)/increase in cash and cash equivalents	20b	**(136.1)**	131.5
Cash and cash equivalents at 1 April		**271.2**	139.7
Cash and cash equivalents at 31 March	13	**135.1**	271.2

The parent company had no cash flows during the year (2015: none).

1. ACCOUNTING POLICIES, FINANCING RISK MANAGEMENT AND ACCOUNTING ESTIMATES

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

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 with the exception of a change of accounting valuation basis for fair value property, plant and equipment as at the balance sheet date; further information is provided in note 8.

Basis of preparation

The consolidated financial statements of Glas Cymru 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 fixed assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Going concern

As described in the financing risk management section the Group meets its day to day working capital requirement through its bank facilities. 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 123.

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.

Changes in accounting policies and disclosures

The following new standards, interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2015 and have not been adopted early:

— Clarification of Acceptable Methods of Depreciation and Amortisation—Amendments to IAS 16 and IAS 38

— Annual Improvements to IFRSs—2012-2014 cycle

— Disclosure Initiative—Amendments to IAS 1

— IFRS 9 Financial Instruments

— IFRS 15 Revenue from Contracts with Customers

— Effective date of IFRS 15—amendment to IFRS 15

— IFRS 16 Leases-single on-balance sheet model for operating and finance leases

The Directors currently anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

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 were included at cost less accumulated depreciation up to 31 March 2015.

The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during it's five-yearly price reviews. The Group has decided that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets value in use.

A previous revaluation of regulated assets was undertaken as at 31 March 2004 and was used as a 'deemed cost' for the Group's fixed assets under the transitional rules available on first time adoption of IFRS.

As at 31 March 2016 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow RCV', being the 31 March 2016 RCV published by Ofwat in its PR14 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

The carrying value of assets will be reviewd for impairment if circumstances dictate that the carrying value may not be recoverable; asset lines and residual values are reviewed annually.

1) Infrastructure assets

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

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is treated as additions. 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; the useful average economic lives of the infrastructure components range principally from 60 to 150 years.

2) Other assets

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

Freehold buildings	60 years
Operational structures	5 – 80 years
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 the acquisition, construction and production of qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Intangible assets

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

The carrying values of intangible assets are reviewed for impairment if circumstances indicate they may not be recoverable. Intangible assets are amortised on a straight line basis over their estimated useful economic lives, which range between 3 and 20 years. These asset lives are reviewed annually.

Leased assets

Certain assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases). These assets are capitalised and included in 'property, plant and equipment' with the corresponding liability to the lessor included within 'financial liabilities—borrowings'. Leasing payments consist of a capital element and a finance charge; the capital element reduces the obligation to the lessor and the finance charge is recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

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

Grants and customer contributions

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

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

Capital expenditure programme incentive payments

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

Trade receivables

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

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and typically include cash in hand and deposits with banks or other financial institutions.

Pension costs

1) Defined benefit scheme

The Group operates a defined benefit scheme which is funded by both employer and employee 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 an independent actuary 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.

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

Past-service costs are recognised immediately on the face of the profit and loss account.

2) Defined contribution scheme
The Group operates a defined contribution scheme for those employees who are not members of the defined benefit scheme. Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

Financial liabilities
Debt is measured initially at fair value, being net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs are recognised in the income statement over the expected term of such instruments at a constant rate on the carrying amount.

Trade payables are obligations to pay for goods and services acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, or in the normal operating cycle of the business.

Derivative instruments utilised by the Group are interest rate, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Group. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2016, none of the Group's derivatives qualified for hedge accounting under IAS 39 (2015: 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 is 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 undertanding of the Group'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, additional depreciation charge in the year on revalued assets, lease and swap terminations and fair value movements on derivatives.

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 can be placed with our Account Bank for overnight risk only or for up to one year with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. Deposits of over one year 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 £29m (2015: £48m).

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 enter into appropriate hedging transactions.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £2,943m as at 31 March 2016 (2015: £3,150m) none related to floating rate debt (2015: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2016, 100% (2015: 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 £414m in the balance sheet at 31 March 2016 (2015: £422m) 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 qualify as financial instruments and are included in the financial statements.

Refinancing risk
Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £2,943m (2015: £3,150m) should fall due in any 24 month period.

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

Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months. As at 31 March 2016, the Group had committed undrawn borrowing facilities of £280m (2015: £190m) and cash and cash equivalents (excluding debt service payments account) of £80m (2015: £129m).

In 2014, the Group agreed a loan facility of £230m with the European Investment Bank. £160m of the facility was drawn during 2015. The remaining facility of £70m was drawn on 17 May 2016. The Group also has an undrawn loan facility of £60m with KfW-IPEX Bank which is available up to May 2017.

The Group has £150m of undrawn revolving credit facilities; £130m of these will expire in May 2020 and the remainder are available until August 2019 with an option to extend (subject to the consent of the provider) for a further year to 2020. There is also a £10m overdraft facility (2015: £10m) which is renewable on an annual basis.

As at 31 March 2016 there was also a special liquidity facility of £135m (2015: £135m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility is renewable on an annual basis.

Capital risk
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 2016 regulatory gearing was 57%.

In respect of the risks detailed above, further quantitative disclosures are provided in note 17.

CRITICAL ACCOUNTING ESTIMATES

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 (2015: £0.8 million).

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2016 would increase or reduce by £7.7m (2015: £8.3m).

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 2016 was £64.9 million (2015: £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 (2015: £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 (prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability not based on observable market data.

All of the Group's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2016 were valued as follows:

Assets: Trading derivatives £0.2m, Treasury derivatives £3.6m. (March 2015: Trading derivatives £nil, Treasury derivatives £3.7m).

Liabilities: Trading derivatives £9.4m Treasury derivatives £408.2. (March 2015: Trading derivatives £4.2m, Treasury derivatives £425.8m).

Trading derivatives relate to power price hedges. 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. 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.

Capitalisation

There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure on both infrastructure and non-infrastructure assets, meet the relevant criteria for capitalisation (directly attributable to the asset, provide probable economic benefit and can be measured reliably) and therefore are included in the valuation of property, plant and equipment, or alternatively should be expensed immediately.

2. SEGMENTAL INFORMATION

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

3. PROFIT/(LOSS) BEFORE TAXATION

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

Group	2016 £m	2015 £m
Operational expenditure		
- Power	**42.6**	44.1
- Chemicals	**9.5**	9.1
- Materials and equipment	**5.7**	5.5
- Vehicles and plant	**7.2**	7.0
- Office expenses	**7.3**	5.0
- Property costs	**4.5**	4.2
- Insurance	**4.5**	3.9
- Sewerage contractors	**14.9**	17.1
- Laboratories and analytical services	**0.6**	0.9
- Collection commissions	**4.0**	4.0
- IT contracts	**13.6**	18.9
- Bought-in services and other costs	**35.6**	25.7
Employee costs (note 21)	**127.2**	122.6
Staff costs capitalised	**(46.2)**	(45.4)
Research and development credit	**(1.1)**	-
Trade receivables impairment	**27.0**	29.7
Rates	**25.3**	26.3
Natural Resources Wales/Environment Agency charges	**14.7**	15.8
Fees payable to auditors	**0.4**	0.3
Total operational expenditure before exceptional items	**297.3**	294.7
Exceptional items	**(20.0)**	19.5
Total operational expenditure including exceptional items	**277.3**	314.2
Infrastructure renewals expenditure	**58.0**	57.7
Depreciation and amortisation		
- Depreciation of property plant and equipment	**230.7**	166.2
- Release of deferred income	**(3.5)**	(2.3)
- Amortisation of intangible assets	**19.9**	14.6
Total depreciation and amortisation	**247.1**	178.5
Total operating costs	**582.4**	550.4

Services provided by the Group's auditors

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

Group	2016 £000	2015 £000
Audit fees		
Audit of parent company and consolidated financial statements	**10**	13
Audit of subsidiary companies	**85**	98
Total audit fees	**95**	111
Audit-related assurance services		
Review of interim financial statements	**22**	23
Regulatory audit services pursuant to legislation	**29**	29
Regulatory price review assurance work	**-**	60
Scheme of charges assurance work	**22**	22
Investor report reviews	**5**	8
Total audit and audit-related assurance services	**173**	253
Other services		
Replacement billings system project assurance work	**-**	68
Assurance on Group restructure	**3**	-
Pensions advice	**235**	-
Tax advice	**5**	-
Assurance on market opening	**25**	-
Other	**-**	2
Total other services	**268**	70
Total cost of services provided by the Group's auditors	**441**	323

Regulatory audit services include audit work on the Annual Performance Report.

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

4. EXCEPTIONAL ITEMS

During the year to 31 March 2016, a business rates refund of £20 million was received relating to the 2005 water network assessment. This has been treated as exceptional due to its size.

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 were disclosed separately in the financial statements to 31 March 2015.

A credit of £2.1 million related to the release of unutilised provision in respect of a previous programme of restructuring. A further £4.0 million exceptional charge arose following the write-off of goodwill arising on the acquisition of hydro assets through an asset purchase vehicle. In total, this gave rise to an exceptional charge for the period to 31 March 2015 of £19.5 million.

5. FINANCING COSTS

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

Group	**2016**	2015
	£m	£m
Interest payable on bonds	**(87.7)**	(87.2)
Indexation on index-linked bonds	**(13.1)**	(28.6)
Indexation on index-linked loan	**(1.4)**	-
Interest payable on finance leases (including swaps to RPI)	**(14.4)**	(21.7)
Other loan interest	**(12.7)**	(13.0)
Other interest payable and finance costs	**(2.3)**	(3.2)
Net interest charge on pension scheme liabilities	**(1.0)**	(0.1)
Accounting profit on termination of lease	**-**	8.4
Swap termination	**-**	(8.5)
Capitalisation of borrowing costs under IAS 23 (2016: 3.4%; 2015: 5.3%)	**3.9**	6.0
	(128.7)	(147.9)
Finance income	**5.6**	3.3
Net finance cost before fair value adjustments	**(123.1)**	(144.6)

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

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. Consequently, the Group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 16 in respect of derivative financial instruments held on the balance sheet.)

Group	**2016**	2015
	£m	£m
Fair value gains/(losses) on interest rate swaps	**15.2**	(36.7)
Fair value of interest rate swaps terminated	**-**	8.2
Fair value gains/(losses) on index-linked swaps	**24.1**	(128.6)
Total fair value gains/(losses) on derivative financial instruments	**39.3**	(157.1)

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

No interest rate swaps were terminated during the year to 31 March 2016. Three interest rates swaps were terminated on 31 March 2015 at a cost of £8.5m.

6. TAXATION

Analysis of (charge)/credit in the year

Group	2016 £m	2015 £m
Current tax		
- Current tax on profits for the year	**(0.1)**	(0.1)
- Current tax on research and development credit	**(0.2)**	(0.1)
- Adjustment in respect of prior years	**0.4**	0.5
Total current tax	**0.1**	0.3
Deferred tax		
- Origination and reversal of timing differences	**(259.8)**	25.7
- Adjustment in respect of prior year	**(0.3)**	(0.6)
- Effect of tax rate change	**48.0**	-
Total deferred tax (note 7)	**(212.1)**	25.1
Taxation (charge)/ credit	**(212.0)**	25.4
Analysed as:		
Credited to Income Statement	**8.9**	19.5
Credited to Statement of Comprehensive Income – pension scheme	**3.7**	5.9
Charged to Statement of Comprehensive Income – revaluation reserve	**(224.6)**	-
	(212.0)	25.4

Tax trading losses carried forward as at 31 March 2016 are circa £232m (2015: circa £286m).

The effective rate of tax for the year is higher (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

Group	2016 £m	2015 £m
Profit/(loss) before tax	**77.0**	(99.6)
Profit/(loss) before tax multiplied by the corporation tax rate in the UK of 20% (2015: 21%)	**15.4**	(20.9)
Effect of:		
- Adjustments in respect of prior years	**(0.2)**	-
- Other permanent differences	**0.1**	1.0
- Effect of pension payments in excess of service charge	**(0.1)**	(0.6)
- Effect of tax rate change	**(48.0)**	1.0
- Movement on deferred tax asset relating to revaluation reserve	**249.6**	-
- Movement on deferred tax asset relating to pension scheme	**(4.8)**	(5.9)
Total taxation (charge)/credit	**212.0**	(25.4)

7. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 18% (2015: 20%).

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

Group	2016	2015
	£m	£m
At 1 April	219.8	241.3
Credit to Income Statement	(8.9)	(19.6)
Charge to Statement of Comprehensive Income	(3.7)	(5.9)
Deferred tax recognised on business combination	-	4.0
Charge to Revaluation Reserve	224.6	-
At 31 March	431.8	219.8

Group	2016	2015
	£m	£m
Effect of:		
- Tax allowances in excess of depreciation	301.2	367.4
- Deferred tax on revaluation of fixed assets	249.6	-
- Capital gains rolled over	2.9	3.2
	553.7	370.6
- Deferred tax on tax losses carried forward	(42.0)	(57.2)
- Deferred tax on losses on derivative financial instruments	(68.6)	(84.4)
- Pensions	(9.8)	(6.1)
- Other tax differences	(1.5)	(3.1)
Net provision for deferred tax	431.8	219.8

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 Company has no deferred tax balance (2015: £nil).

8. REVALUATION RESERVE

The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during it's five-yearly price reviews. The Group has decided that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets value in use.

A previous revaluation of regulated assets was undertaken as at 31 March 2004 and was used as a 'deemed cost' for the Group's fixed assets under the transitional rules available on first time adoption of IFRS.

As at 31 March 2016 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow RCV', being the 31 March 2016 RCV published by Ofwat in its PR14 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

The carrying value of assets will be reviewd for impairment if circumstances dictate that the carrying value may not be recoverable; asset lines and residual values are reviewed annually.

Revaluation reserve movement	**31 March 2016**
	£m
Revaluation reserve as at 1 April 2015	**-**
Revaluation of assets to RCV	**1,247.8**
Depreciation charge on revalued assets	**(55.2)**
	1,192.6
Deferred tax on revaluation	**(224.6)**
Deferred tax on depreciation charge	**9.9**
	(214.7)
Revaluation reserve as at 31 March 2016	**977.9**

9. 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 2015	37.5	1,789.7	3,549.9	257.9	5,635.0
Revaluation	-	195.4	-	-	195.4
Additions net of grants and contributions	4.1	105.0	132.0	4.7	245.8
Disposal	-	-	-	(0.2)	(0.2)
At 31 March 2016	**41.6**	**2,090.1**	**3,681.9**	**262.4**	**6,076.0**
Accumulated depreciation					
At 1 April 2015	19.1	290.4	1,494.0	253.1	2,056.6
Revaluation	-	(330.5)	(721.9)	-	(1,052.4)
Charge for the year	0.7	40.1	183.1	6.8	230.7
Released on disposal	-	-	-	(0.2)	(0.2)
At 31 March 2016	**19.8**	**-**	**955.2**	**259.7**	**1,234.7**
Net book value					
At 31 March 2016	**21.8**	**2,090.1**	**2,726.7**	**2.7**	**4,841.3**
At 31 March 2016 (historic cost bases)	**21.8**	**1,574.0**	**2,050.2**	**2.7**	**3,648.7**

The net book value of property, plant and equipment includes £109.0m in respect of assets in the course of construction (2015: £98.0m).

The net book value of property, plant and equipment includes £35.7m of borrowing costs capitalised in accordance with IAS 23 (2015: £33.3m), of which £3.4m were additions in the year (2015: £5.6m).

Prior 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

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 2016			
Cost	611.8	117.7	729.5
Accumulated depreciation	(105.6)	(81.5)	(187.1)
Net book value	506.2	36.2	542.4

Prior 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

The parent company owns no property, plant or equipment.

10. INTANGIBLE ASSETS

Group	**Cost**	**Amortisation**	**Net book value**
Current year	**£m**	**£m**	**£m**
At 1 April 2015	216.3	(115.7)	100.6
Additions/(charge for the year)	25.0	(19.9)	5.1
At 31 March 2016	241.3	(135.6)	105.7

Prior year	**Cost**	**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

Intangible assets comprise computer software and related system developments.

The net book value of intangible assets includes £20.2m in respect of assets in the course of construction (2015: £4.7m). The net book value of intangible assets includes £2.8m of borrowing costs capitalised in accordance with IAS 23 (2015: £2.3m), of which £0.5m were additions in the year (2015: £0.4m).

The parent company owns no intangible assets.

11. INVESTMENTS

Group

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

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

Parent Company

The parent company has a £1 investment in Glas Cymru (Securities) Cyfyngedig (100% holding) and has indirect investments in the following subsidiary undertakings:

	Principal activities	**Country of incorporation**	**Holding**
Dŵr Cymru (Holdings) Limited	Holding company	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	England and Wales	100%
Dŵr Cymru (Financing) Limited	Raising finance	Cayman Islands	100%
Welsh Water Utilities Finance plc	Dormant	England and Wales	100%
Hydro 1 Limited	Dormant	England and Wales	100%
Dŵr Cymru Customer Services Limited	Dormant	England and Wales	100%

Dŵr Cymru Customer Services Limited ceased trading during the year. It is the Group's intention to liquidate the dormant entities Welsh Water Utilities Finance plc, Hydro 1 Limited and Dŵr Cymru Customer Services Limited by 31 December 2016.

Further information on the Group's structure is available in the Annual Report on page 71.

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	**2016**	2015
Current	**£m**	£m	**£m**	£m
Trade receivables	**537.0**	527.9	**-**	-
Provision for impairment of receivables	**(85.3)**	(78.9)	**-**	-
Trade receivables - net	**451.7**	449.0	**-**	-
Prepayments and accrued income	**82.0**	74.3	**-**	-
Other receivables	**10.5**	9.3	**-**	-
	544.2	532.6	**-**	-
Non-current				
Amounts receivable from Group undertakings	**-**	-	**3.4**	3.4
	-	-	**3.4**	3.4
Total trade and other receivables	**544.2**	532.6	**3.4**	3.4

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

As at 31 March 2016, based on a review of historical collection rates it was considered that £85.3m (2015: £78.9) 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 Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
Billed in advance	**373.7**	**-**	**373.7**
Under one month	**18.7**	**(8.0)**	**10.7**
Between one and six months	**38.9**	**(17.3)**	**21.6**
Between six months and one year	**30.6**	**(6.1)**	**24.5**
Between one and two years	**46.8**	**(31.7)**	**15.1**
Between two and three years	**26.1**	**(20.0)**	**6.1**
Over three years	**2.2**	**(2.2)**	**-**
	537.0	**(85.3)**	**451.7**

Prior year Trade receivables	**Total £m**	**Provided for £m**	**Net £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

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

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

	2016 £m	2015 £m
At 1 April	**78.9**	65.9
Charge to Income Statement	**26.4**	29.1
Receivables written off during the year as uncollectable	**(20.0)**	(16.1)
At 31 March	**85.3**	78.9

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.

The total charge to the income statement of £27.0m (2015: £29.7m) incudes the bad debt element of local authority collection charges where local authorities collect debt on the Group's behalf (2016: £0.6m, 2015: £0.6m)

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash at bank and in hand	**47.7**	135.2	**0.1**	0.1
Short-term deposits	**87.4**	136.0	**-**	-
	135.1	271.2	**0.1**	0.1

The effective interest rate on short-term deposits as at 31 March 2016 was 0.5% (2015: 0.4%) and these deposits had an average maturity of 43 days (2015: 30 days). With the exception of 3m Euros, all cash and cash equivalents are held in Sterling.

14. TRADE AND OTHER PAYABLES

	Group		Company	
	2016	2015	**2016**	2015
Current	**£m**	£m	**£m**	£m
Trade payables	**37.1**	49.3	**-**	-
Capital payables	**41.3**	40.9	**-**	-
Amounts due to Group undertakings	**-**	-	**3.5**	3.5
Social security and other taxes	**4.0**	3.9	**-**	-
Accruals and deferred income	**445.0**	445.2	**-**	-
	527.4	539.3	**3.5**	3.5

	Group		Company	
	2016	2015	**2016**	2015
Non-current	**£m**	£m	**£m**	£m
Deferred income	**159.2**	99.8	**-**	-

15. FINANCIAL LIABILITIES – BORROWINGS

Current

Group	**2016**	2015
	£m	£m
Cash and cash equivalents	**42.8**	123.2
Interest accruals	**0.8**	6.0
Unamortised bond premium	**0.6**	0.6
Unamortised bond issue costs	**(0.4)**	(0.3)
European Investment Bank loans	**20.3**	11.6
Local authority loans	**0.1**	0.3
Finance lease obligations	**9.3**	10.3
	73.5	151.7

Non-current

Group	**2016**	2015
	£m	£m
Interest accruals	**46.8**	52.8
Bonds	**1,987.4**	2,005.5
Unamortised bond premium	**6.6**	7.3
Unamortised bond issue costs	**(4.3)**	(4.7)
KfW Bank loan	**-**	35.0
European Investment Bank loans	**386.1**	405.0
Local authority loans	**0.6**	0.6
Finance lease obligations	**446.5**	496.9
	2,869.7	2,998.4

The parent company; Glas Cymru Anghyfyngedig has no borrowings.

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

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

— a first fixed and floating security over all of DCC's assets and undertaking, to the extent permitted by the Water Industry Act, other applicable law and its licence; and

— a fixed and floating security given by the guarantors referred to above which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

The Group's Class A Bonds of £979m (2015: £973.7m) benefit from a guarantee from MBIA UK Insurance Limited ("MBIA"). MBIA's credit rating has been reduced to Ba2 and BB 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 £1,008.4m (2015: £1,000.6m).

16. 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	Liabilities
	£m	£m
Current		
Index-linked swaps	**3.6**	**(14.2)**
Interest rate swaps	**-**	**(8.8)**
Power hedging swaps	**-**	**(1.0)**
	3.6	**(24.0)**
Non-current		
Index-linked swaps	**-**	**(303.2)**
Interest rate swaps	**-**	**(82.2)**
Power hedging swaps	**0.2**	**(8.4)**
	0.2	**(393.8)**
Total	**3.8**	**(417.8)**

Group - prior year	Fair values	
	Assets	Liabilities
	£m	£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)

In accordance with IAS 39, 'Financial instruments: Recognition and Measurement', the Group has reviewed all contracts for embedded derivatives that are required to be accounted for separately if they do not meet certain requirements set out in the standard. The Group has no such embedded derivatives as per IAS 39.

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

Interest rate swaps
At 31 March 2016 an interest rate swap fixes the interest rate on £192m (2015: £192m) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031 and the quarterly LIBOR fixed interest rate is 5.67%.

Index-linked swaps
Finance lease swaps
The index-linked swaps have the effect of index-linking the interest rate on £382m (2015: £425m) 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 2016 is £400m (2015: £427m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2016. 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	£400m amortising (2015: £427m amortising)
Average swap maturity	23 years (2015: 23 years)
Average interest rate	1.63% fixed plus RPI (2015: 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	£133m (2015: £131)
Swap maturity	41 years (2015: 42 years)
Interest rate	1.35% indexed by RPI (2015: 1.35% indexed by RPI)

17. FINANCIAL RISK MANAGEMENT

The policies of the Group in respect of financial risk management are included in the accounting policies note on page 121. 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:

	2016	2015
Assets:		
Cash and cash equivalents	**0.5%**	0.4%
Liabilities:		
Bonds	**4.4%**	4.4%
European Investment Bank loans	**0.7%**	1.2%
KfW loan	**-**	1.2%
Local authority loans	**4.2%**	4.0%
Finance lease obligations	**1.0%**	0.8%

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

b) Liquidity risk

Group - current year	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	**135.1**	**-**	**-**	**-**	**135.1**
Trade and other receivables	**544.2**	**-**	**-**	**-**	**544.2**
	679.3	**-**	**-**	**-**	**679.3**
Liabilities:					
Cash and cash equivalents	**42.8**	**-**	**-**	**-**	**42.8**
Bonds	**0.6**	**0.7**	**327.1**	**1,666.2**	**1,994.6**
European Investment Bank loans	**20.3**	**21.6**	**95.9**	**268.6**	**406.4**
Local authority loans	**0.1**	**0.1**	**0.4**	**0.1**	**0.7**
Finance lease obligations	**9.3**	**10.5**	**40.5**	**395.5**	**455.8**
Trade and other payables	**527.4**	**1.8**	**4.9**	**152.5**	**686.6**
Future Interest payable	**105.8**	**107.3**	**304.7**	**912.3**	**1,430.1**
	706.3	**142.0**	**773.5**	**3,395.2**	**5,017.0**

Group - prior year	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	271.2	-	-	-	271.2
Trade and other receivables	532.6	-	-	-	532.6
	803.8	-	-	-	803.8
Liabilities:					
Cash and cash equivalents	123.2	-	-	-	123.2
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
Future Interest payable	103.7	104.4	300.1	1,015.7	1,523.9
	789.0	177.3	449.5	3,843.4	5,259.2

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

	2016 £m	2015 £m
Gross finance lease liabilities		
Within one year	**16.3**	16.2
Between two and five years	**90.6**	123.0
After five years	**464.7**	505.8
	571.6	645.0
Future interest	**(115.8)**	(137.8)
Net finance lease liabilities	**455.8**	507.2
Net finance lease liabilities are repayable as follows:		
Within one year (note 15)	**9.3**	10.3
Between two and five years	**51.0**	86.0
After five years	**395.5**	410.9
Total over one year (note 15)	**446.5**	496.9

c) Fair values

The fair values of the Group's derivative financial instruments are set out in note 16. The following table summarises the fair value and book value of the Group's bonds.

		2016		2015
	Book value	**Fair value**	Book value	Fair value
	£m	**£m**	£m	£m
Bonds (note 16)	**1,994.6**	**2,604.9**	2,013.4	2,671.6

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

d) Borrowing facilities

As at 31 March 2016, the Group had available undrawn committed borrowing facilities of £280m expiring as set out below, in respect of which all conditions precedent had been met (2015: £190m).

	2016	2015
	£m	£m
Expiring in less than 1 year:		
- term loan facility	**70**	-
Expiring in more than 1 year:		
- revolving credit facilities	**150**	120
- term loan facility	**60**	70
	210	190
	280	190

The remaining £70m of a £230m loan facility with European Investment Bank was drawn on 17 May 2016.

The Group also has an undrawn loan facility of £60 million with KfW-IPEX Bank which can be drawn up to May 2017, and £150m of undrawn revolving credit facilities of which £130m will expire in May 2020. The remaining £20 million is available until August 2019 with an option to extend for a further year to 2020.

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

At 31 March 2016 Dŵr Cymru (Financing) Limited also had a special liquidity facility of £135m (2015: £135m) which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through operating cash flow of the Group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

All of the above facilities are at floating rates of interest.

e) Capital risk management

Gearing ratios

	2016	2015
	£m	£m
Total borrowings	**(2,943)**	(3,150)
Less: cash and cash equivalents	**135**	271
Net debt	**(2,808)**	(2,879)
Regulatory capital value (RCV)	**4,983**	4,831
Total capital	**2,175**	1,952
Less: unamortised bond costs and swap indexation	**(38)**	(5)
Total capital per bond covenants	**2,137**	1,947
Gearing ratio	**57%**	60%

As set out on page 122, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

18. PROVISIONS FOR OTHER LIABILITIES AND CHANGES

	Restructuring provision	Dilapidation provision	Uninsured loss provision	Other provisions	Total
	£m	£m	£m	£m	£m
At 1 April 2015	17.7	1.7	4.6	3.6	27.6
Charged to income statement	-	-	0.8	0.6	1.4
Unused amounts reversed	-	(0.6)	-	-	(0.6)
Utilised in year	(11.8)	(0.3)	(1.5)	(0.3)	(13.9)
At 31 March 2016	**5.9**	**0.8**	**3.9**	**3.9**	**14.5**
Split as:					
Amounts to be utilised within one year	2.8	0.4	-	-	3.2
Amounts to be utilised after more than one year	3.1	0.4	3.9	3.9	11.3
At 31 March 2016	**5.9**	**0.8**	**3.9**	**3.9**	**14.5**

The parent company has no provisions at 31 March 2016 (2015: £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.

19. NET CASH INFLOW FROM OPERATING ACTIVITIES

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

Group	**2016**	2015
	£m	£m
Operating profit	**160.8**	202.1
Adjustments for:		
- Depreciation and amortisation	**247.1**	178.5
- Changes in working capital:		
Increase in trade and other receivables	**(11.8)**	(7.4)
(Increase)/decrease in inventories	**(0.1)**	0.3
Decrease in trade and other payables	**(12.4)**	(6.7)
Pension contributions above service cost	**(1.6)**	(2.4)
(Decrease)/increase in provisions	**(13.1)**	12.6
	(39.0)	(3.6)
- Other adjustments	**-**	4.0
Cash generated from operations	**368.9**	381.0

b) Interest paid

Group	**2016**	2015
	£m	£m
Interest payable per income statement	**128.7**	147.9
Less non-cash items:		
- Indexation on index-linked bonds	**(13.1)**	(28.6)
- Indexation on index-linked debt	**(1.4)**	-
- Amortisation of bond issue costs	**(0.2)**	(0.3)
- Interest charge on pension scheme liabilities	**(1.0)**	-
- Amortisation of bond issue premium	**0.7**	0.6
- Effect of capitalisation under IAS 23	**3.9**	6.0
- Accounting profit on lease termination	**-**	8.4
- Decrease/(increase) in accruals	**11.3**	(10.5)
	0.2	(24.4)
Interest paid	**128.9**	123.5

20. ANALYSIS AND RECONCILIATION OF NET DEBT

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

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash and cash equivalents	**135.1**	271.2	**0.1**	0.1
Debt due after one year	**(2,376.4)**	(2,448.7)	**-**	-
Debt due within one year	**(63.4)**	(135.4)	**-**	-
Finance leases	**(455.8)**	(507.2)	**-**	-
Accrued interest	**(47.6)**	(58.8)	**-**	-
	(2,943.2)	(3,150.1)	**-**	-
Net (debt)/cash	**(2,808.1)**	(2,878.9)	**0.1**	0.1

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

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Net (debt)/cash at start of year	**(2,878.9)**	(2,815.5)	**0.1**	0.1
Movement in net cash	**(136.1)**	131.5	**-**	-
Movement in debt arising from cash flows	**178.6**	(164.4)	**-**	-
Movement in net debt arising from cash flows	**42.5**	(32.9)	**-**	-
Movement in accrued interest	**11.2**	(8.8)	**-**	-
Indexation of index-linked debt	**(14.5)**	(28.6)	**-**	-
Bond indexation	**31.2**	-		
Accounting profit on lease termination	**-**	8.4		
Other non-cash movements	**0.4**	(1.5)	**-**	-
Movement in net debt during the year	**70.8**	(63.4)	**-**	-
Net (debt)/cash at end of year	**(2,808.1)**	(2,878.9)	**0.1**	0.1

21. EMPLOYEES AND DIRECTORS

Staff costs for the Group during the year

	2016	2015
	£m	£m
Wages and salaries	104.9	100.7
Social security costs	9.7	9.6
Other pension costs	12.6	12.3
	127.2	122.6

Of the above, £46.2m (2015: £45.4m) has been capitalised.

Average monthly number of people employed by the Group	2016	2015
(including Executive Directors)	Number	Number
Regulated water and sewerage activities	3,007	2,962

For further information see the Remuneration Report on page 84.

22. PENSION COMMITMENTS

The Group operates a funded defined benefit pension scheme (based on final pensionable salary and pensionable service), the Welsh Water Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund.

The Welsh Water 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 2016 and the principal assumptions made by the actuaries were:

	2016	2015
Discount rate	3.6%	3.4%
Inflation assumption	3.0%	3.0%
Rate of increase in pensionable salaries	3.0%	2.0%
Rate of increase in pensions in payment	2.9%	2.9%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	87.0 years	87.2 years
- Current pensioners aged 65 - females	88.9 years	89.4 years
- Future pensioners aged 65 (currently aged 45) - males	88.2 years	88.6 years
- Future pensioners aged 65 (currently aged 45) - females	90.4 years	90.9 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 2016, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

The mortality assumptions are the S2PxA base tables with future improvements in line with the CM1 2015 projection model with a long term trend rate of 1% p.a.

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

	Present value of obligation	**Fair value of plan assets**	**Total**
	£m	**£m**	**£m**
At 1 April 2015	396.6	(366.1)	30.5
Current service cost	10.0	-	10.0
Interest expense/income	13.4	(12.4)	1.0
Past service cost	-	-	-
Expenses	-	0.5	0.5
	23.4	(11.9)	11.5
Remeasurements			
Gain from change in demographic assumptions	(4.5)	-	(4.5)
Gain from change in financial assumptions	20.4	-	20.4
Experience gains	(7.5)	16.2	8.7
	8.4	16.2	24.6
Contributions	-	(12.1)	(12.1)
Benefits paid	(15.3)	15.3	-
	(15.3)	3.2	(12.1)
At 31 March 2016	**413.1**	**(358.6)**	**54.5**

	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£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			
Gain from change in demographic assumptions	-	-	-
(Gain)/loss from change in financial assumptions	60.7	-	60.7
Experience gains	-	(28.4)	(28.4)
	60.7	(28.4)	32.3
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

The total amount recognised in the balance sheet is made up as follows:

	2016 £m	2015 £m
Present value of funded obligations	**(413.1)**	(396.6)
Fair value of plan assets	**358.6**	366.1
	(54.5)	(30.5)
EFRBS unfunded liability	**(2.0)**	(2.0)
Net liability recognised in the Balance Sheet	**(56.5)**	(32.5)

	2016	2015	2014	2013	2012	2011
Experience adjustments arising on scheme assets:						
Amount (£m)	**(16.2)**	(24.2)	(2.9)	17.9	(9.5)	(8.2)
Percentage of scheme assets	**4.5%**	7%	1%	6%	4%	4%
Experience adjustments arising on scheme liabilities:						
Amount (£m)	**(8.4)**	(60.7)	(5.1)	(15.7)	(16.4)	3.6
Percentage of the present value of scheme liabilities	**2%**	15%	2%	5%	6%	2%
Present value of scheme liabilities (£m)	**413.1**	396.6	320.0	323.2	272.7	238.4
Fair value of scheme assets (£m)	**358.6**	366.1	318.8	291.1	240.8	222.9
Deficit (£m)	**(54.5)**	(30.5)	(1.2)	(32.1)	(31.9)	(15.5)

The contributions paid in the year to 31 March 2016 include special contributions of £1.3m (2015: £1.3m). There were no contrubutions paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2015: nil) The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2017 amounts to £1.3m.

	Change in assumption	Increase in liabilities
Discount rate	0.10%	£7.7m
Price inflation	0.10%	£7.3m
Life expectancy	1 year	£(9.1)m

The above sensitivity analysis is based on isolated changes in each assumption whilst holding all over 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.

23. CAPITAL AND OTHER FINANCIAL COMMITMENTS

The Group's business plan at 31 March 2016 shows net capital expenditure and infrastructure renewals expenditure of £365m (2015: £332m) 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.

24. 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 Anghyfyngedig Group.
The company has not entered into transactions with any other Group company during the year (2015: none).

25. 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.

26. ELAN VALLEY TRUST FUND

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

The sum of £31.7m, representing the consideration for the conditional sale, was invested in a trust fund.
The principal function of the fund was to provide an income to Welsh Water Authority, whilst preserving the capital value of the fund in real terms. Welsh Water Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989.

The assets of the fund are not included in these financial statements. As at 31 March 2016 the market value of the trust fund was £111m (2015: £113m).

Interest receivable includes £3.5m (2015 £2.5m) in respect of distributions from the Elan Valley Trust Fund.

27. 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.

28. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND CONTROLLING PARTY

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales on 15 December 2015. The largest and smallest group with which the reports of the company are consolidated in at 31 March 2016 is that headed by Glas Cymru Anghyfyngedig.

APPENDICES

GLOSSARY

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 will run 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	These include 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 related 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 and 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.
CPNI	Centre for the Protection of National Infrastructure
CCWater	Consumer Council for Water - see page 22.
Credit rating	Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing.
Customer Payment Account	The Customer Payment Account (as defined by the Common Terms Agreement) 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 22.
Drinking Water Safety Plan	This is a proactive method of assessing risk to drinking water quality, which better protects public health.
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 - see page 22.
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 is the generic name used to refer to the Goup holding company. Glas Cymru Cyfungedig was formed in 2000 to own, finance, and manage Dŵr Cymru Welsh Water. During 2015/16 Glas Cymru Cyfyngedig was reregistered as Glas Cymru Anghyfngedig and Glas Cymru Holdings Cyfyngedig was created to be the holding company for the Glas Cymru Group.
Groundwater	Water that can be found in the saturated zone of the soil.
Group	Glas Cymru 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 related 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.
MCPA	Herbicide
Mean Zonal Compliance	Mean Zonal Compliance (MZC) is a measure of compliance in all the water quality zones for 39 key chemical and bacteriological parameters derived from the statutory monitoring programme of samples taken from customers taps.
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.
Natural Resources Wales (NRW)	Welsh Government sponsored body whose purpose it is to ensure that the natural resources of Wales are sustainably maintained, enhanced and used - see page 22.
Non-Executive Directors	Members of Glas Cymru's Board. Non-Executive Directors are not responsible for the day-to-day running but challenge management and oversee the running of the Group.
Ofwat	The economic regulator of the water sector 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 Glas Cymru which addresses performance and operational risk issues across the company.
RainScape	Glas Cymru's approach to managing surface water and overloaded sewers (sustainable urban drainage systems).

Real terms	This means the change in a financial number after remving the effect of inflation.
Regulatory Capital Value	The asset value of Dŵr Cymru, determined by Ofwat, on which our investment returns (or Regulatory Returns) is allowed to be made. This is, in effect, a proxy for the economic value in use of the appointed business of Dŵr Cymru Cyfyngedig.
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.
SSSI	Special Site of Scientific Interest
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.

MEASURES OF SUCCESS: DEFINITIONS

A1a	**Safety of Drinking Water (% compliance)**	Provide safe drinking water that meets the Drinking Water Inspectorate's standards. The percentage of the sample tests that are compliant with the standards. We take over 250,000 samples tests per year at our water treatment works, service reservoirs and at customer taps.
A1b	**Safety of Drinking Water (Mean zonal compliance)**	Mean Zonal compliance is published annually in the Drinking Water Inspectorate (DWI) report. The MZC covers 39 different parameters such as Iron, Lead and Aluminium, which are tested to establish the quality of water as received by customers. MZC is calculated as the average of the compliance levels for each parameter in each of our 87 water quality zones, which range in size from 27 population to almost 100,000 population. (The maximum allowable population is any one water quality zone is 100,000 allowable within the DWI regulations).
A2	**Customer acceptability**	The number of contacts received from customers in the year regarding the appearance, taste or odour of drinking water, expressed as a rate per 1,000 customers.
A3	**Reliability of Supply**	The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions)
B1	**Abstraction for water for use**	The percentage compliance with our abstraction licences, as issued by Regulators.
B2	**Treating wastewater**	For each of our wastewater treatment works there is a permit which regulates the quality of wastewater the company is allowed to discharge into rivers and coastal waters, which is regulated by the NRW. The measure is the % compliance against the discharge permits.
B3a	**Preventing pollutions (cat 1,2&3)**	Reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency. Category 1 - the most severe and have a major or serious impact on the environment, people or property. Category 2 - significant impact or effect on the environment, people or property. Category 3 - minor or minimal impact on the environment, people or property.
B3b	**Preventing pollutions (cat 3 only)**	As above but only category 3 pollution incidents (minor or minimal impact on the environment, people or property).

C1	**Responding to climate change**	Reduce the amount of rainwater entering our sewers. The measure is the volume of surface water removed from the system, expressed as the number of equivalent properties.
C2	**Carbon footprint**	To generate more renewable energy and therefore to offset our carbon emissions and the cost of imported energy (GWh hours per year).
D1	**SIM**	Service incentive mechanism (SIM) is a measure introduced by the Regulator Ofwat to monitor and report customer service information across all water & wastewater companies as a comparative measure.
D2	**At Risk Customer Service**	The number of customers who are on our register of "at risk". They are deemed to be "at risk" because their service has repeatedly fallen short in one of the following five areas: discolouration of water, interruptions to supply, low pressure, odour from wastewater assets and sewer flooding.
D3	**Properties flooded in the year**	The number of properties suffering internal sewer flooding per year.
D4a	**Business Customer Satisfaction % satisfied**	Business customer satisfaction as measured by either satisfied or very satisfied in the six monthly survey undertaken.
D4b	**Non Household Customer Satisfaction**	Business customer satisfaction as measured by the average customer score out of a total of 5 then converted to a percentage.
D5	**Earning the Trust of Customers**	Customer trust as measured in an annual survey we undertake.
E1	**Affordable Bills**	The company will continue to make bills more affordable by maintaining falling bills in real terms, beating inflation by around 1% a year.
E2	**Help for Disadvantaged customers**	Help more customers who genuinely struggle to pay their bills by providing assistance through a range of social tariffs and our Customer Assistance Fund.
F1	**Asset Serviceability**	Maintain our assets. Serviceability includes a basket of sub-measures used by Ofwat to monitor the effectiveness of our asset management and the maintenance of our assets.
F2	**Leakage**	Reduce our leakage levels – megalitres per day (Ml/d).
F3	**Asset Resilience**	Improve the resilience score of our most strategic assets. Improve the percentage of strategic assets that are resilient against a set of criteria. Strategic assets are those where failure would have a major impact on service to customers or on the environment.