GLAS

GLAS CYMRU
REPORT & ACCOUNTS
2016—2017

CONTENTS

CHAIRMAN'S STATEMENT

THIS IS MY FIRST STATEMENT HAVING BEEN APPOINTED CHAIRMAN AT THE BEGINNING OF LAST JULY FOLLOWING MY JOINING THE BOARD IN MAY. AS SUCH I THOUGHT I MIGHT SHARE SOME INITIAL OBSERVATIONS BASED ON MY EXPOSURE SO FAR TO OUR BUSINESS AND PEOPLE.

COME

ALASTAIR LYONS
CHAIRMAN

Many businesses talk about being different, but Welsh Water strikes me as truly different. Much of that difference stems from its constitution as a not-for-shareholder business with all its profits available to be ploughed back into the business for the benefit of customers – this year we announced an additional £32m of funds generated to be applied to finance investments and activities that our customers have told us they support. We are different in basing everything we decide and do on seeking to understand our customers, their circumstances, priorities, and needs: different in our absolute commitment to delivering the highest possible standards at an affordable cost: different in being able to set our planning in the truly long-term context of a vision of Welsh Water 2050 that itself is informed by ongoing engagement with our customers.

From those colleagues whom I have met during the visits I have made to our treatment works for both clean and waste water, our retail customer contact centres, our offices and our recreational visitors centres, I take away a great pride, and a considerable depth of knowledge and experience, in what they do, alongside an openness to find ways to deliver an even better service to our customers. Whilst many have very long service records, we are also attracting significant numbers of new recruits to the sector, in particular through our apprenticeship and graduate schemes, and our average age is falling while diversity more generally is increasing.

When there is a need to react urgently to events I find a business that gives its all. With a substantial legacy infrastructure, particularly of pipework, and the climatic changes that create more volatile weather which in turn alters ground conditions, it is inevitable that mains will burst from time to time and sewers will be inundated with rain water. When this happens the teams at Welsh Water work tirelessly to maintain supply, remediate flooding, and restore normal service, all to the most demanding standards of personal safety. There can be periods where event follows event and there is little respite, particularly for those responsible for making the difficult decisions on how best to respond. On behalf of the Board, I would like to thank our colleagues for the commitment they show to our customers and the communities we serve.

The discussions I have had with our Executive team and that we have subsequently had at our Board meetings reveal a business that is deeply conscious of its environmental responsibility and of the contribution it can make to the well-being of future generations. First, what is happening in the environment has a huge impact on what we do, from the levels of rainfall in our catchment areas to the propensity for warmer conditions to create algal growth in the water we treat. Secondly, the business itself has a great impact on the environment, from the quality of water we discharge into watercourses to our ability to generate the energy we need to power our pumps and treatment works. We also recognise our role in society as the provider of fundamental necessities of day-to-day living and the consequent responsibility to be a catalyst in the development of thinking to improve the lives of our customers. Accordingly, we have been playing our part in putting this thinking into effect in such areas as removing lead from the water system in Wales and improving urban drainage. We are listening every day to the concerns of our customers and seek to make what contribution we can to address them.

As a large landowner in some of the most beautiful natural environments, Welsh Water has an unrivalled opportunity to enrich the communities we serve by making the land and reservoirs we own available to the wider public, investing in facilities that allow them to be used to the full. We are delighted to have begun work on the Llanishen and Lisvane reservoirs in Cardiff and are working to restore that facility to its former glory as a natural haven in the middle of a capital city. Walking this February around our Brenig reservoir in Denbighshire and meeting the team that manages our visitor centre and fishery, I couldn't but think how lucky I am to have a job that allows me to spend working time in such fantastic settings!

The business recognises clearly that as necessities of life, water and sewerage services need to be affordable. It has, therefore, the responsibility of developing the most efficient ways of delivering these services, combining re-engineered operating practices with investment in modern, lower cost assets. In this regard it is constructive that our economic regulator (Ofwat) has moved to assess business performance on the basis of total expenditure, leaving the company to determine whether the best outcome is derived from operational expenditure or by investing capital to reduce operating costs in the future. Affordability is also an issue of key importance to the business, and I am pleased to report that in 2016-17 for the eighth year in a row, the increase in the average household bill is again below the rate of (RPI) inflation. Notwithstanding this, we recognise that there are segments within our customer base that struggle to afford to pay their utility bills and we continue to promote subsidised tariffs that these customers also can afford. Our wider customer consultation tells us that the broad base of our customers expect us to support those who need help and are content that we should apply a part of the surplus we generate to support such social tariffs.

Then there is the scale and complexity of what we do — 27,500 kms of water mains, 63 treatment works and 91 reservoirs, £350m invested in the last year in maintaining and enhancing our assets spread across 6,260 distinct projects. And all this is delivered to stringent quality standards, this year achieving our best ever performance against the six DWI water quality measures.

That strong performance does not cloud the team's awareness of where we need to do better, and these areas, particularly the reduction of occasional discolouration issues with tap water and of periods without supply, determine where we prioritise our longer-term investment plans.

There is a huge amount currently going on in the business as we engage with our customers and the Customer Challenge Group over

“MANY BUSINESSES TALK ABOUT BEING DIFFERENT, BUT WELSH WATER STRIKES ME AS TRULY DIFFERENT”

OUR DRIVING FORCE AT WELSH WATER WILL CONTINUE TO BE THE NEEDS OF OUR CUSTOMERS

the submission of the next five year business plan, which has to be with Ofwat in September 2018. We believe we can only take a view of what the business wants to achieve over the five years from 2020 to 2025, if we take a longer-term context. Whereas other water companies may sometimes have to focus on the short-term priorities dictated by their shareholders, our constitution allows us to develop plans that will meet the needs of our customers today, tomorrow, and in the future. Our business is subject to long-term trends – environmental, climatic, social, technological. Much of what we design and build to support our delivery takes a long time to think through and then implement and, by virtue of the substantial investment required, has a long asset life. It was this that determined the need to articulate a vision of what we might achieve between now and 2050 and we are currently consulting with our customers and other stakeholders on how we should prioritise our ambitions within the context of what we can afford to do.

Our industry is also undergoing material change with the introduction of retail competition for business customers of English water companies and preparations for the economic separation in 2020 of water resources and bioresources alongside the existing clean and waste water price controls. Our driving force at Welsh Water will continue to be the needs of our customers, whether household or business, and we will seek to develop for them the services they need, taking our lead from the best in the market alongside our own capacity to come up with innovative solutions to customers' requirements. Our aim is for all customers to receive a highly competitive service regardless of whether or not they are within the defined competitive market. We will continue to approach all of our customers with a coherent strategy harnessing Welsh Water's operational delivery alongside our customer service capabilities to deliver what our customers tell us they want.

The corporate restructure of our business that took place last year gives us the capability to develop commercial enterprise alongside our regulated business. We will explore such opportunities where the enterprise in question is a logical profitable extension of our existing activities, particularly where it applies shared capabilities, benefits existing customers, or can give rise to either revenue or cost synergies. We are, however, very aware of the potential pitfalls of diversification away from core competence.

Since becoming Chairman I have not only had the opportunity to meet a lot of colleagues, but also many of our Glas Members, another point of difference for Welsh Water. Having been used to public company AGMs, where one is lucky to get a few private shareholders and one never sees the institutions that hold the voting power, the Welsh Water AGM, attended by some two-thirds of our Members and lasting for four hours, was a very different and energising experience. We are very lucky to have a membership that is as engaged and interested in our business, and willing to give selflessly of their time to provide independent critique of our Board's stewardship and to offer their advice and encouragement. My thanks, on behalf of the Board, to the significant number of Members who will this year be coming to the end of their appointed term, and also to the independent Member Selection Panel for the work they are doing to select new Members.

In closing may I say how much I have appreciated being made so welcome by my colleagues on the Board and by all with whom I have had the opportunity to spend time. May I also express my appreciation of the way in which Bob Ayling, my predecessor as Chairman, introduced me to the Board and the business, achieving a seamless and highly constructive transition: I know Welsh Water owes him a deep debt of gratitude.

I am conscious that I come to the water industry as a complete novice and am very grateful for the patience and forbearance of those who are teaching me so much about the sector and the company and have corrected my misunderstandings. I look forward to continuing my learning in the coming year!

Alastair Lyons
Chairman

8 June 2017

STRATEGIC

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

STRATEGIC REPORT

1

CHIEF EXECUTIVE'S REVIEW

Last year we celebrated the 15th anniversary of Glas Cymru's unique corporate structure and achieved the best year's overall operational performance for Welsh Water since 2001. We are focused on looking forward, understanding our customers' priorities in formulating our long-term plans for the essential public service that we provide. Our objective is to deliver further improved and sustainable performance across some of our key reporting measures – drinking water quality, environmental protection, developer services, customer satisfaction, cost reduction, and above all, improving customer service. Whilst we have made good progress on all these fronts in the last year, we are ambitious to do even better in the coming years, so that we can continue to earn the trust of our customers every day.

CUSTOMER SERVICE

Over the past 12 months, we have developed our Customer-led Success approach, seeking to place customers at the centre of everything we do across the company. Customer-led Success has been developed from an ongoing analysis of our customers' wants and needs. Teams across the business have created Team Charters to help them better identify what their customers value and what we can do differently to deliver the best possible customer service. This is making a real difference – as evidenced by the most recent independent research from CCWater (see page 35) which shows we are leading the water industry across Wales and England in terms of customer satisfaction and value for money for our services – both for our household and business customers.

The launch of our first television advertising campaign in 2016, featuring colleagues from around the business, helped to raise awareness and inform customers about our unique corporate structure. Our customer research indicates that this campaign played a key part in helping improve awareness of our not-for-shareholder model from 31% (June 2016) to 52% (January 2017). Awareness of our unique structure in turn helps us to earn the trust of more of our customers, and building trust in this way helps us encourage our customers to work with us to improve customer service, for example through our "Stop the Block" campaign which has been successful in reducing the number of avoidable sewer blockages.

After several consecutive years of reducing numbers of written complaints, we experienced a temporary but significant rise in written complaints early in 2016. Our review of the reasons for this shows it was attributable to changes in systems and processes – primarily, issues arising from the implementation of a new billing system and the introduction of more robust processes for chasing customer debt from those customers who are able to pay, as well as changes we made to our website which made it easier for customers to email us with issues, rather than to telephone. We have since made very positive progress in improving customer service in 2016-17, with the total number of complaints, whether made in writing or by telephone, now down to the lowest levels we have seen for many years. We know that delivering great customer service is imperative if we are to earn the trust of customers, and we are aiming to achieve the UK's Institute of Customer Service (UK ICS) 'Service Mark – Distinction' accreditation by 2020.

CHRIS JONES
CHIEF EXECUTIVE

REVIEW

BUSINESS CUSTOMERS

During the year, we also prepared for the opening of the competitive market for business retail services in April 2017. The competitive market has not expanded to the same extent as in England for our customers. As a company based mainly in Wales, our largest non-household customers (those taking more than 50ML of water per annum) are now able to switch water retailer more easily should they choose to do so. Our fundamental focus is to continue to deliver the best possible service and value for money to all our business customers, as well as providing a range of additional services.

DEVELOPERS

We have continued to improve our service to developers, with our standards of service judged to be among the highest in the industry according to industry monthly benchmarking of levels of service indicators. We have also streamlined our processes for concluding Build over Sewer agreements for standard sized sewers, in direct response to feedback from our customers, and have continued to hold regular, successful workshops across our region with house-builders and other developers.

PUBLIC WATER SUPPLY

Our performance for safe and reliable drinking water remained strong during 2016-17. We delivered our best ever performance on some measures such as reducing the total number of water quality and iron compliance failures, while we matched our best ever performance for quality at customers' taps and supply points, or Mean Zonal Compliance, at 99.97% and Service Reservoir Bacteriological performance at 99.97%. With only one bacteriological failure at our water treatment works and also a strong performance against the Drinking Water Inspectorate's indices for disinfection and process control, our annual performance was amongst the very best in the sector.

Our one area of water service performance where we still have considerable issues to address involves intermittent problems with the taste, odour or discolouration of water for some customers. Last year, we had 2.9 contacts per 1,000 customers on such issues, the same as the year before (against a target of 2.7 per 1,000). We are determined to improve on this performance. Our £130 million Zonal Studies investment programme is targeted to help address this and transform customer service in a dozen specific geographic areas, which together account for the majority of our customer contacts and complaints about the quality of drinking water supply (see page 23). We intend to add considerable extra investment over coming years to this programme, which is driven by detailed analysis of customer and operational data and which uses a range of innovative techniques to address asset deficiencies which have arisen over many decades.

ENVIRONMENTAL PERFORMANCE

Wastewater Services also delivered its best ever performance over a wide range of areas. The number of pollution incidents remained stable in 2016-17 with 114 incidents (2015-16: 112 – our best ever performance on this measure) but we also had the lowest ever number of sites considered to be 'at risk' of failure – 14 compared to 21 in 2015. The number of treatment works failing to comply with environmental discharge permits has more than halved (3) compared to last year (8) and overall consent compliance at 99.47% is also better than last year and equals our previous best ever performance.

The number of properties flooded internally with wastewater from our sewers during 2016-17 was 242 (2015: 223). We will continue to invest to try to bring down this figure. Many flooding incidents are caused by blocked sewers from misuse, for example when fats, oils, greases and wet wipes enter the sewer. We intend to continue our drive to work with local communities to remove these from our network.

WORKING WITH OUR CUSTOMERS

Customers are now more directly involved in how we should develop and deliver customer service. This was a fundamental part of the way we engaged with our customers last summer as part of our award-winning, 'Have Your Say' consultation. We invited all Welsh Water customers to express their views on how the value generated by our not-for-shareholder model should be used in the future – money that would in other companies have gone to shareholders in dividends. We received more than 12,000 responses which provide a solid platform on which to build as we continue our customer engagement activity to help shape our Business Plan for 2020-2025.

Over 2000 of those who responded to the survey said that they would welcome us staying in touch with them and we are in the process of developing a customer forum which will involve those customers in our decision-making processes on a much more regular basis. This group will sit alongside our customer focus groups, the Customer Challenge Group and our wider engagement programme for customers.

We are pleased that for the eighth year in a row, we were able to keep the annual price increase below RPI inflation for the majority of our customers, while also committing to an additional £5 million investment in our flagship social tariff scheme, HelpU. We are now providing assistance through a range of schemes to more than 70,000 of our customers who genuinely struggle to pay their bills.

Because of our unique not-for-shareholder model, we were able to announce in June 2016 an additional £32 million of investment – or around £25 per customer – on projects including: improving the acceptability of drinking water to over 30,000 customers in the Rhondda Valleys and Pembrokeshire; extending our renewable energy portfolio; and extra support for vulnerable customers.

COLLEAGUES

We remain focused on maintaining high levels of employee engagement, so we are pleased this increased in our annual Employee Engagement Survey to 77% in 2016 (2015: 71%) with a record response rate of 81% (2015: 77%). Our network of Employee Engagement Champions across the business continues to work with teams to address issues identified through the survey. We have also continued to work well with our Trade Unions under our long-standing Working Together Agreement – for example, in jointly promoting our award winning Essential Skills Programme, under which colleagues have achieved over 1,100 external qualifications in areas such as literacy, numeracy and IT skills.

We have also been successful in attracting and retaining talented people – and have continued to expand our apprenticeship and graduate programmes. Given this investment, we were pleased to have received external recognition for our apprentice and graduate schemes (see page 47). We continue to champion diversity across our organisation and were pleased to feature in the International Women's Day event at the Senedd organised by Women in Science and Engineering (WISE). We have also become a member of Chwarae Teg, an organisation which promotes gender equality across Wales, in 2016, and welcomed Joy Kent, their Chief Executive, to speak to an enthusiastic group drawn from across the company.

Health and Safety remains a key priority in all our undertakings – and we welcome the continued improvement in 2016-17, with fewer, less serious injuries and increased levels of positive intervention and reporting. However, we remain committed to further improving our focus on health, safety and wellbeing in years to come. We are working with the HSE to promote their "Help GB Work Well" initiative.

We would not have been able to deliver the significant improvements for customers over the last 12 months without the enthusiasm and commitment of our colleagues. We are proud of their unrelenting dedication which is matched by that of our contracting partners, who have worked very hard all year round to support customers and protect the environment around us – and I would also like to thank them for their significant contribution.

INNOVATION

We welcomed over 300 delegates to our Innovation Conference held at Swansea University in January 2017 as we seek new ways to deliver better and more efficient services to the communities we serve. One example is our RainScape programme, which continues to deliver innovative sustainable drainage solutions across our supply area to reduce the number of flooding incidents and the numbers of discharges from overflows. We are also keen to adopt best practice ideas from leading international water and sewerage companies, and in 2016-17 we worked with Oasen Drinkwater in the Netherlands and Danva in Denmark, welcoming colleagues from these partner organisations and exchanging ideas.

We are including innovation in diverse ways across our business – we continue to engage with the farming community to help manage catchments through our "Weed Wiper" initiative to avoid widespread use of weedkillers in sensitive catchments; we have launched our "Pestsmart" campaign to work together with all user groups, including farmers, to encourage "smarter" techniques to reduce the impact of pesticides; and we are beginning to focus on developing a "Mega Catchments" approach in co-operation with other land owners, so that we can together manage our water catchments more holistically.

OUR VISION FOR THE FUTURE

One of the advantages of our ownership model is that it allows us to focus on our single, clear vision to earn our customers' trust every day. We take a longer-term perspective in investing to deliver that vision for the benefit of future, as well as current, customers. The communities we serve face a number of future challenges, including climate change, population growth, wider environmental change and challenges to the nature of technology and the economy. These challenges will impact how we work at a time when we also need to manage a changing regulatory environment, especially as we monitor the possible implications of Brexit and prepare for further devolution of powers to the National Assembly for Wales through the provisions of the Wales Act 2017.

The Welsh Government's Well-being of Future Generations (Wales) Act 2015 is aimed at improving the social, economic, environmental, and cultural well-being of the people of Wales. We want to play a leading role in helping to deliver these well-being goals. We have worked with a range of leading independent experts to develop a consultation – Welsh Water 2050, the blueprint for our long-term strategy. We are confident that this long term plan will help us become a truly world-class, resilient and sustainable water service. We will continue to engage with our customers over summer 2017 so that we can further reflect their priorities in finalising this strategy, and to inform our business plan for 2020-25. Our unique ownership model places our customers at the centre of our business structure, and by working together we can find the best balance between meeting the high standards expected by today's customers, whilst preparing for the challenges and opportunities that will be faced by future generations and ensuring that we always keep bills affordable for our customers.

C. A. Jones

Chris Jones
Chief Executive

8 June 2017

2

OUR STORY

We provide a safe, reliable and affordable water supply across 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 public service.

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

We use part of the waste we treat to generate power, which we then use to run some of our sites.

BUT THERE'S MORE...

WE ARE DIFFERENT FROM OTHER WATER COMPANIES

We don't have shareholders, which means that we devote any surplus we generate to keeping bills down, improving our services and protecting the environment — now, and for years to come.

WE ARE NOT-FOR-SHAREHOLDER — BUT FOR OUR CUSTOMERS.

WE'RE DIFFERENT

WE'RE DIFFERENT FROM OTHER WATER COMPANIES — WE'RE NOT FOR SHAREHOLDER

OUR MODEL

Glas Cymru provides regulated water and sewerage services through our licensed water and sewerage undertaker, Dŵr Cymru, to household and business customers across most of Wales and parts of Herefordshire and Cheshire.

Dŵr Cymru also provides additional value adding services to our business customers. We generate renewable energy to reduce our operating costs and our overall carbon footprint from anaerobic digestion, solar, hydro and wind generation.

We also make our sites accessible to our customers as leisure facilities where we can, and we run four visitor centres to encourage the public to make the most of the land we own. We undertake commercial projects with the aim of generating value to invest on behalf of our customers through our subsidiary Welsh Water Infrastructure. We are in the process of applying for a Water and Sewerage Supply Licence to serve those sites of our existing customers in England, through our subsidiary Cambrian Utilities.

As a non-shareholder Group, all the surpluses we generate from our activities are reinvested in the businesses to improve service and value to our customers. We are proud of our wider impact in the communities we serve, working with others to improve overall environmental outcomes and supporting economic development, training and education to promote sustainable behaviours.

3

OUR VISION

Since 2001, our key objective has been to deliver high quality water and wastewater services to our customers, representing good value for money.

Our vision is simple. It gives a clear sense of purpose to our colleagues and helps the customers who rely on us every day for the essential services we provide to understand what we stand for.

ACHIEVING OUR VISION MEANS WE WILL:

- PROVIDE SERVICES WHICH MEET OR EXCEED CUSTOMERS' EXPECTATIONS
- PERFORM AS WELL AS THE BEST WATER COMPANIES IN THE UK ACROSS A RANGE OF MEASURES
- LEAD THE WATER INDUSTRY ON A RANGE OF IMPORTANT ISSUES
- ENSURE THAT BILLS REMAIN AT AFFORDABLE LEVELS
- PROVIDE SUPPORT FOR THOSE CUSTOMERS WHO STRUGGLE TO PAY THEIR WATER BILLS

OUR VISION

WE WILL EARN THE TRUST OF OUR CUSTOMERS EVERY DAY

4

THE **VALUE** WE BRING

Our unique ownership model allows us to retain, for the benefit of our customers, money that in other companies would be paid out to shareholders as dividends. Since being set-up in this way in 2001, we have created more than £2 billion — or 'additional value' — to benefit our customers.

HOW DOES THIS WORK?

We generate surplus funds by managing our costs and balancing debt against the regulatory capital value (or the value placed by Ofwat on our business):

£2,916 million Net Debt	÷	£5,217 million Regulatory Capital Value	=	56% Gearing

This gives us a gearing which measures the proportion of the funds we have borrowed compared to the value of the business.

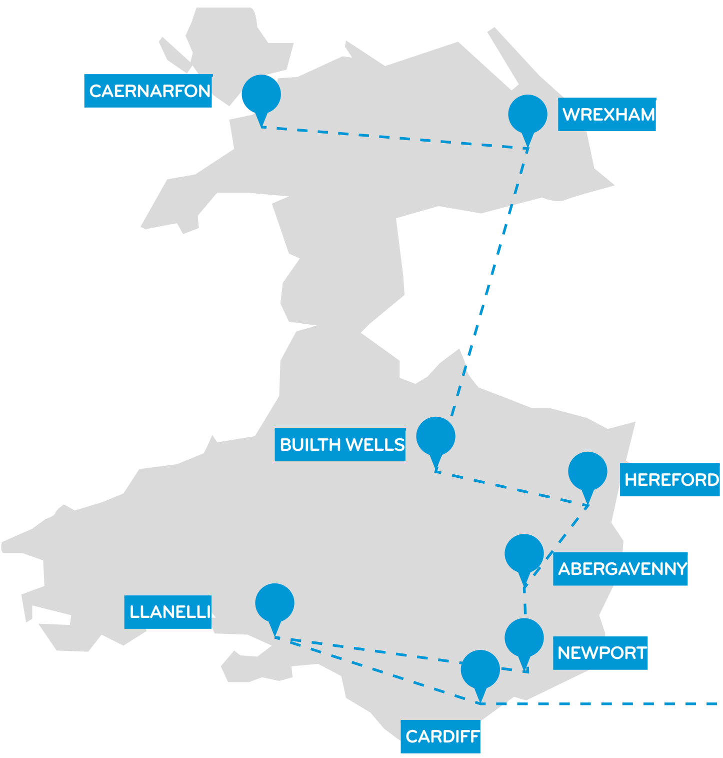
With gearing at 56%, below our current target of 60% which is set by the Board, this means the additional funds generated can be returned to customers through improved services and additional help for those who struggle to pay their bills.

OUR PROMISE TO CUSTOMERS

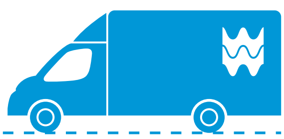
As a company owned on behalf of our customers, we have committed to giving all our customers a say in how any surplus funds generated — estimated as likely to average around £30 million a year in the period to 2020 — should be returned to customers through additional investment.

In the summer of 2016, we asked our customers to take part in a unique consultation. Have Your Say gave our customers the chance to tell us how they think we should invest these funds generated during 2016-17.

We travelled around the area we serve to meet as many of our customers as possible over 10 weeks, resulting in our biggest ever customer consultation, generating just over 12,000 responses.



WE TRAVELLED AROUND THE AREA WE SERVE ASKING CUSTOMERS TO 'HAVE YOUR SAY'



WHAT WE ASKED

Our customers were asked to prioritise the following six options:

- lower water and sewerage bills
- more help for customers who struggle to pay their bills
- investing more in our network in order to become more efficient
- investing now to save money in the future through renewable energy and innovation
- supporting educational and recreational projects in our communities
- speeding up improvements for customers suffering repeat problems with their services

WHAT WE NOW PLAN TO DO DO — OUR PLANS FOR THE YEAR AHEAD

Communities across most of Wales, Herefordshire and parts of Deeside will benefit over the next 12 months from investment in projects that will now be brought forward as a result of the increased funding which we are announcing in June 2017. These will include:

£10 MILLION

£10 million extra to support the major replacement of ageing drinking water pipes across our network, including in Flint and Connah's Quay, Hereford and Llechryd, West Wales.

£5 MILLION

More than £5 million towards extra investment in our visitor centres and recreational facilities, including restoring Cardiff's Llanishen and Lisvane reservoirs as part of a longer term plan to bring them back into public use. We will also use the extra funding to improve recreational access and biodiversity at Llyn Alaw reservoir on Anglesey, Swiss Valley reservoir in Llanelli and Lliw reservoir in Felindre, Swansea, and modernise our visitor centres at Llyn Brenig in Conwy and Elan Valley.

£3.5 MILLION

£3.5 million extra to reduce the 2,000 blockages a month in our sewer network which often result in flooding and pollution incidents, working with customers to "Stop the Block".

£5 MILLION

£5 million to support the lowest-earning households to pay their bills. £4 million of this was announced in February 2017.

£5 MILLION

£5 million for improvements to our water treatment works to make them more resilient.

£5 MILLION

£5 million to help improve customer service for households and businesses through new online systems, apps and over the telephone.

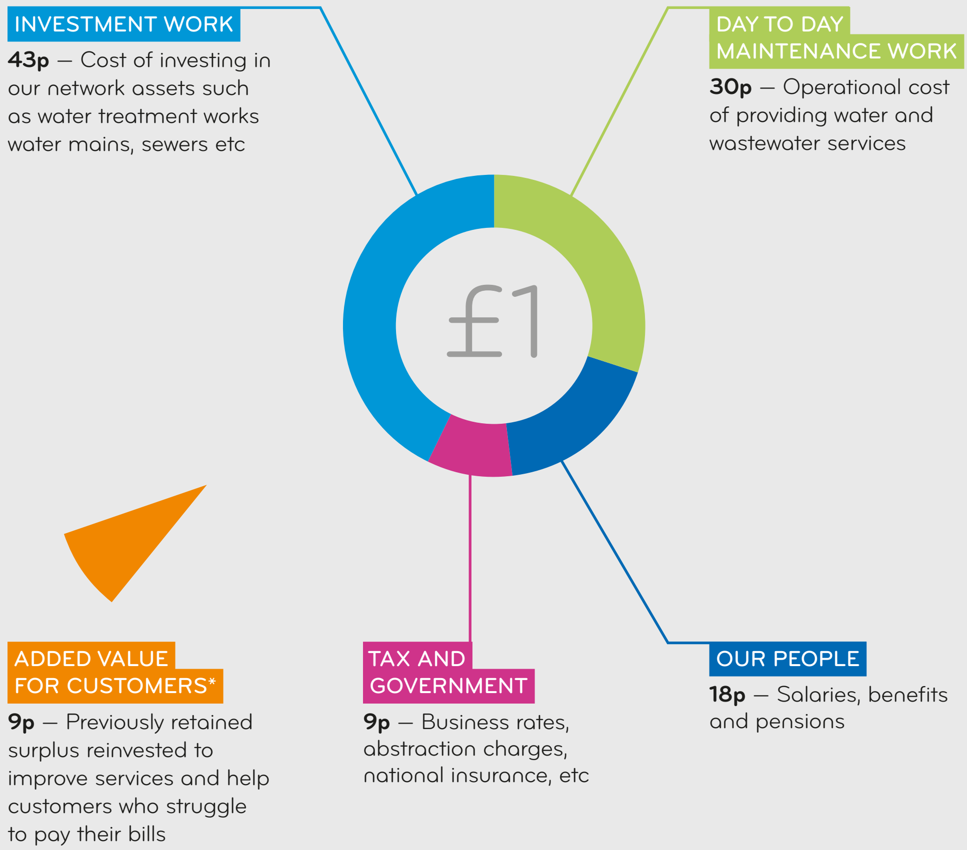
5

INVESTING YOUR MONEY

As well as creating surplus funds to reinvest for our customers, we must also ensure our day-to-day services represent good value for money for our customers.

The diagram below shows how we use our customers' payments. This year, for every £1 of money from customers that we have spent we have invested an additional 9p from reserves built up in previous years.

WHERE EACH £1 OF INCOME FROM CUSTOMER BILLS IS SPENT



*This calculation is based on the total figure for costs, including Customer Distributions.

6

2016-2017: AT A GLANCE

Some of the key events and challenges for the Group over the last year:

2016

APRIL

Maintaining supplies to 80,000 customers in South Wales after major landslide at Pontsticill Water Treatment Works.

MAY

Celebrating 15 years of Glas Cymru buying and setting up Welsh Water as a not-for-shareholder water and sewerage company.

JUNE

Start of our £130 million Zonal Studies investment programme to help accelerate improvements to the drinking water of customers. The first Zone with works undertaken was in North Wales.

JULY

Launching our Have Your Say customer consultation, on how we invest future profit.

AUGUST

Undertaking works to draw down a reservoir at 1,000 litres a second to provide safe working conditions and planning the pipeline repair of Caban Coch dam.

SEE PAGE 25

SEPTEMBER

Launching our new Welsh Baccalaureate resource to help develop skills and promote careers in the water industry.

OCTOBER

Holding our annual Employee Challenge event at Llyn Brenig, North Wales, raising a record £5,200 for WaterAid.

NOVEMBER

Launching our official support status for Chwarae Teg, a Welsh charity working to create opportunities for women in the workplace.

DECEMBER

Learning from international best practice – start of pilot project to trial new ways of treating wastewater at our Gowerton site.

2017

JANUARY

Repairing a burst water main at Abercwmboi, near Aberdare, while maintaining supplies to 12,500 customers in the area.

FEBRUARY

Announcing an additional £4 million to support customers genuinely struggling to pay their bills by extending our social tariff schemes.

MARCH

Holding a workshop with Glas Members on Welsh Water 2050 strategy ahead of launch.

7

HOW WE'RE DOING

To help us measure our performance, our Business Plan contains eight key 'outcomes' that we want to achieve by 2020 for our customers, communities and the wider environment. These outcomes are based on our customers' priorities from our consultation in 2013.

OUTCOME		MEASURES OF SUCCESS	2015-16	2016-17	2016-17 VS PREVIOUS YEAR	OFWAT TARGET	2016-17 VS OFWAT TARGET
1 HIGH QUALITY DRINKING WATER You will have complete confidence that your drinking water is safe, reliable and tastes good	A1a	Safety in Drinking Water (% compliance)*	99.98	99.99	✓	-	-
	A1b	Safety of Drinking Water (% Mean zonal compliance)*	99.96	99.97	✓	99.98	✗
	A2a	Customer acceptability (contacts p/1,000 pop)*	2.91	2.88	✓	-	-
	A3	Reliability of Supply	21.7	12.2	✓	24	✓
2 PROTECTING THE ENVIRONMENT We will safeguard a sustainable environment that we are proud to hand on to future generations	B1	Abstraction for water for use	100	100	✓	100	✓
	B2	Treating wastewater*	98.59	99.47	✓	100	✗
	B3a	Preventing pollutions (cat 1,2&3)*	112	114	✗	-	-
	B3b	Preventing pollutions (cat 3 only)*	110	111	✗	154	✓
3 RESPONDING TO CLIMATE CHANGE We will adapt our activities to deal with the potential effects of climate change, while reducing our own carbon footprint	C1	Responding to climate change	1,531	13,661	✓	10,000**	✓
	C2	Carbon footprint	97.4	86.5	✗	55	✓

We measure our success towards achieving these outcomes against a number of targets — or Measures of Success — that we aim to meet or exceed every year. These targets are a combination of regulatory targets as agreed by our regulators and others set independently by the Glas Cymru Board. For further information, please see Appendix — Measures of Success: Definitions (page 153).

OUTCOME		MEASURES OF SUCCESS	2015-16	2016-17	2016-17 VS PREVIOUS YEAR	OFWAT TARGET	2016-17 VS OFWAT TARGET
4 **CUSTOMER SERVICE** We will continue to provide our customers with excellent customer service	**D1**	SIM	83	83	✓	-	
	D2	At Risk Customer Service	648	575	✓	750	✓
	D3	Properties flooded in the year	223	242	✗	300	✓
	D4a	Business Customer Satisfaction (%)	89.5	90.82	✓	-	
	D4b	Non Household Customer Satisfaction (%)	88	89	✓	88	✓
	D5	Earning the Trust of Customers (%)	82	85	✓	66	✓
5 **AFFORDABLE BILLS** We will maintain our assets for future generations, at efficient cost	**E1**	Affordable Bills (% below inflation)	-1	-1	✓	-1	✓
	E2a	Help for Disadvantaged customers	54,845	71,167	✓	-	-
6 **LOOKING AFTER OUR ASSETS** We will maintain our assets for future generations, at efficient cost	**F1**	Asset Serviceability	Stable (x4)	Stable (x4)	✓	Stable	✓
	F2	Leakage	179.86	175.43	✓	177	✓
	F3	Asset Resilience (Water/ Waste Water)	88.2/73.6	89.5/73.6	✓	81/72	✓
7 **DEVELOPING AND PROTECTING OUR PEOPLE** We will develop a team of people who will provide a great service to our customers	**G1**	Riddor Incidents	19	12	✓	-	-
	G2	Competence in Role	88	87	✗	-	-
8 **AN EFFICIENT BUSINESS** We will continue to be an efficient business with a strong credit rating	**H1**	Financing Efficiency (credit rating)	A/A3/A	A/A2/A	✓	-	-

A definition of each Measure of Success can be found in Appendix 1 on page 153.
* Measured by the calendar year (January 2016 to December 2016). Other outcomes are measured by the financial year (April 2016 to March 2017).
** Appears in the Final Determination for PR14 as 1,000 (typographical error)
A detailed comparison of our general performance on some key measures against that of other water and sewerage companies be viewed on discoverwater.org

KEY OUTCOMES

OUTCOME 1:
HIGH QUALITY DRINKING WATER

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

99.99%

DRINKING WATER QUALITY STANDARDS COMPLIANCE

700,000

TESTS A YEAR CARRIED OUT ON WATER SUPPLIES

“Making sure over three million people have access to our most fundamental resource isn't just a service we provide, it's a huge responsibility. Our duty is to make sure our customers trust us to ensure drinking water is clean and safe for every person, every time they turn on their tap.”

Ian Christie
Managing Director,
Water Services

HIGHLIGHTS

Water Quality

2016-17 saw our best ever performance with top quartile levels against the six DWI water quality measures. Last year was one of our best in terms of the quality of water travelling through our network – from treatment works to taps. Our water is sampled and tested thoroughly for a wide range of different chemicals and substances, from lead and pesticides to micro-organisms. We achieved 99.99% overall compliance with drinking water quality standards. In total we carried out over 700,000 tests on water in 2016-17. Only 34 out of the 237,841 regulatory samples we took failed to meet the required standards for water quality (2015: 47). We also performed better than our target, for the first time, in iron compliance at 99.81% (2015: 99.43%). Discolouration is a long-standing challenge for us given that we estimate around a third of our drinking water network – of 27,500 kilometres – is made up of iron water mains.

Leakage

Leakage, the volume of water lost from our pipes each day, was also at its lowest level ever at 175 megalitres a day (Ml/d) – down from 180 Ml/d in 2015-16. We have ambitious targets to reduce leakage – as shown in the Performance Targets on page 54. It is the right thing to do for our customers and for the environment; it is what our customers want, and it also makes our service more resilient to drought.

CHALLENGES

Customer contacts
We saw a slight reduction in the number of customers who contacted us about the appearance, taste and colour of their water. We still failed to meet our target for the year and our performance was impacted by high flows running through our network. increased customer demand during warm weather periods or bursts can stir up sediment in pipes and lead to temporary discolouration of the water, and while not being harmful, it can understandably then result in calls from concerned customers.

Loss of supply
Operational incidents can also lead to a temporary loss of supply for our customers. In 2016-17 we significantly reduced the amount of time that households are without water due to a burst or other interruption to supply to an average of 12 minutes (2015: 22 minutes per customer). Restoring and maintaining customer supply is always a key priority as we implement temporary measures to keep the taps running. This includes deploying specialist equipment such as overland pipes and also using large tankers to feed water into the network. These measures are expensive – with the use of tankers in 2016-17 costing us around £1.3 million – but they are an integral part of our planning as our teams do their utmost to minimise disruption to communities.

We have focused on improving these two measures over the past 12 months by targeting investment to upgrade water mains in "hotspot" areas such as Llechryd in West Wales, Mold in North Wales, Whitbourne in Herefordshire, and Malpas in Newport. This will continue to be a priority for us in 2017-18 with similar investment to replace and cleanse water mains across Anglesey and in communities across the Rhondda Fach in the South Wales Valleys.

LOOKING AHEAD

Catchment management
Looking after our land, rivers and reservoirs is crucial to protecting drinking water for years to come. This is why we launched PestSmart in November 2016, a joint initiative between Welsh Water and Natural Resources Wales and supported by the Welsh Government. The project encourages farmers, growers and landowners to manage the use of pesticides and herbicides more effectively. By signposting them to practical solutions for weed, pest and disease control and including a free pesticide disposal scheme, the aim is to improve raw water quality before it reaches water treatment works and to better protect the environment. By understanding our catchments better, they can become our 'first line of defence' against poor water quality.

> If we are going to protect our water environment for future generations, we will need to be imaginative about how to do this. The PestSmart initiative is an innovative approach that provides an excellent example of the sort of new collaborative approaches we want to foster in the years ahead.
>
> **LESLEY GRIFFITHS AM**
> Welsh Government Cabinet Secretary for Environment and Rural Affairs

Resilience
Currently Welsh Water does not have a 'grid supply system' – and this means very little connectivity between our areas of supply. For example, typically we have a single source (such as an impounding reservoir or river abstraction point), feeding a single treatment works, which is fed by a single large diameter pipe to the distribution system. When any of this supply system fails, whether it is through raw water deterioration, treatment process failures or a burst pipe, fixing the problem can be a major and urgent undertaking. In the future, there is the potential for increased risk of failure of the water treatment system due to increased agricultural run-off, extreme weather events, cyber-attack and supply chain failure.

We are therefore starting to think now how we can make our network more resilient by providing connectivity between our water resource, supply zones and treatment works while also building network capacity by moving from a traditional point-to-point distribution system to an automated grid system that incorporates redundancy and strategic storage where necessary.

1

SUCCESSFUL REPAIR OF A DAMAGED PIPELINE

THE REPAIR IS THE FIRST OF ITS KIND IN THE UK

CABAN COCH DAM, ELAN VALLEY

RELEASED AROUND 1,000 LITRES A SECOND FROM THE DAM

CASE STUDY

OUTCOME 1:
HIGH QUALITY DRINKING WATER

CABAN COCH DAM, ELAN VALLEY

In September 2016, we successfully repaired a damaged pipeline (used to release water from the reservoir during an emergency) at one of our oldest, and largest, dams. Before starting, we needed to release around 1,000 litres a second from the Victorian-built dam – more than we put into supplying the whole of Wales – for around three weeks before using specialist divers to help isolate the pipeline in order to complete the repair. This repair raised very significant potential safety concerns and involved extensive forward planning – in total, the planning and carrying out the repair took 11 weeks and cost around £1 million. We are pleased to confirm that the repair was both managed safely and completed without any impact on the drinking water supply to around one million customers in Birmingham (customers of Severn Trent Water served by the Elan Valley aqueduct) and South East Wales. The repair, the first of its kind in the UK, has equipped us with knowledge of new and innovative ways of working that is now enabling us to become industry-leaders in this type of repair work. Further work will be necessary in the longer term to secure the long-term resilience of the dam.

KEY OUTCOMES

OUTCOME 2: **PROTECTING THE ENVIRONMENT**

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

HIGHLIGHTS

Final effluent quality
We have delivered some of our best-ever environmental performance over the past 12 months, with a record 99.47% of the wastewater being returned to rivers and coastal waters meeting the discharge permits set by our environmental regulators (2015-16: 98.60%). Only 3 of our wastewater treatment works — from 835 — failed to meet the required standards. This success was largely due to continued investment in our assets, partnership working with Natural Resources Wales and periods of more benign weather conditions. The total number of pollution incidents remained stable in 2016 at 114 (2015: 112 which was our lowest ever level of pollutions).

Flow
Treating the correct amount of wastewater at our treatment works is an important part of managing the quality of water returned to the environment. This can be challenging due to the nature of our combined sewers (which receive wastewater and surface water run-off), extremes of rainfall and water infiltrating our extensive sewer network — which totals over 36,000 kilometres. All this requires us to monitor the flow of wastewater and take action if we are not treating the correct amount. This ensures we can continue to comply with our permits and protect the environment. We are pleased to have been recognised during the year by the Environment Agency and Natural Resources Wales as industry leaders in this area.

Bathing water
We also welcomed the 2016 Bathing Water results in November, which showed that Wales continues to achieve among the best results in the UK. With 84 of the 103 bathing waters marked as 'excellent' under European Union regulations, a record number of international Blue Flag Awards were awarded in 2016 to 44 beaches and 3 marinas in Wales in 2016 — 5 more than last year. Cemaes Bay on Anglesey was the only area rated 'poor' in terms of bathing water quality in 2016, and we are working closely with the local community as well as Anglesey County Council and Natural Resources Wales to help improve water quality in the area. It is unlikely that this pollution has been caused by our operations, however we continue to support coastal communities to address risks to water quality —tackling diffuse pollution is a key part of the Welsh Government's Water Strategy for Wales.

CHALLENGES

Flooding incidents
We are disappointed that the number of properties flooded internally with wastewater from our sewers increased during 2016-17 to 242 (2015-16: 223). Whilst we have made good progress in reducing flooding caused by capacity issues in our sewer network, many flooding incidents are now caused by blocked sewers, which can happen when customers dispose of fats, oil and greases, and non-flushable items such as wet wipes down the toilet.

Sewer blockages
We estimate that around 60% of blockages are caused by the 'wrong' customer behaviour – and this is why we continued with our award-winning behavioural change campaign, 'Let's Stop the Block', during the year. We also tried to educate our customers by hosting an 'open day' at several of our wastewater treatment works, where the local community was invited to visit as part of 'World Toilet Day' in November. This proved successful and will be extended to more sites in 2017.

More widely, we were pleased to play our part during 2016 in an industry-wide campaign, generating significant media coverage, to encourage manufacturers of 'flushable' products to improve their labelling of products and gradually move towards the use of more bio-degradable materials in such products.

After having 2 serious pollution incidents in 2015-16, there were 3 such incidents in 2016-17 – two of which involved operational failures leading to pollution incidents in a bathing water and river course, and one relating to heating oil leaking into the ground and subsequently entering a watercourse. All these incidents are reviewed by our Executive Team and the Quality and Environment Committee as we aim to ensure lessons are learned to enable us to achieve our target of zero serious pollution incidents every year.

LOOKING AHEAD

State of Natural Resources Report
In 2016-17, we welcomed Natural Resources Wales's first State of Natural Resources Report. The Report assesses how Wales is doing in the sustainable management of natural resources. While highlighting the potential impact of our work on the environment, it also recognises the improvements made in how we treat wastewater. We look forward to working with key partners – particularly through our Independent Environmental Advisory Panel – to help manage our natural resources more sustainably and to improve resilience. We plan to publish the company's first ever Biodiversity Action Plan in late 2017.

Tighter standards
A key part of our work in managing the wastewater network in future, we will be continuing to meet ever tightening environmental standards. The challenge will be striking the right balance between installing further elements of treatment upon the large number of works that we have, as against consolidating works into fewer "supercentres" and incurring the costs of conveying flows to those sites.

Managing costs
Lower energy demand and sustainable treatment processes are essential to help us to keep our services affordable to customers.

We will continue to increase the amount of renewable energy generated on our sites, and our innovation team is exploring ways of treating wastewater more effectively and with fewer chemicals.

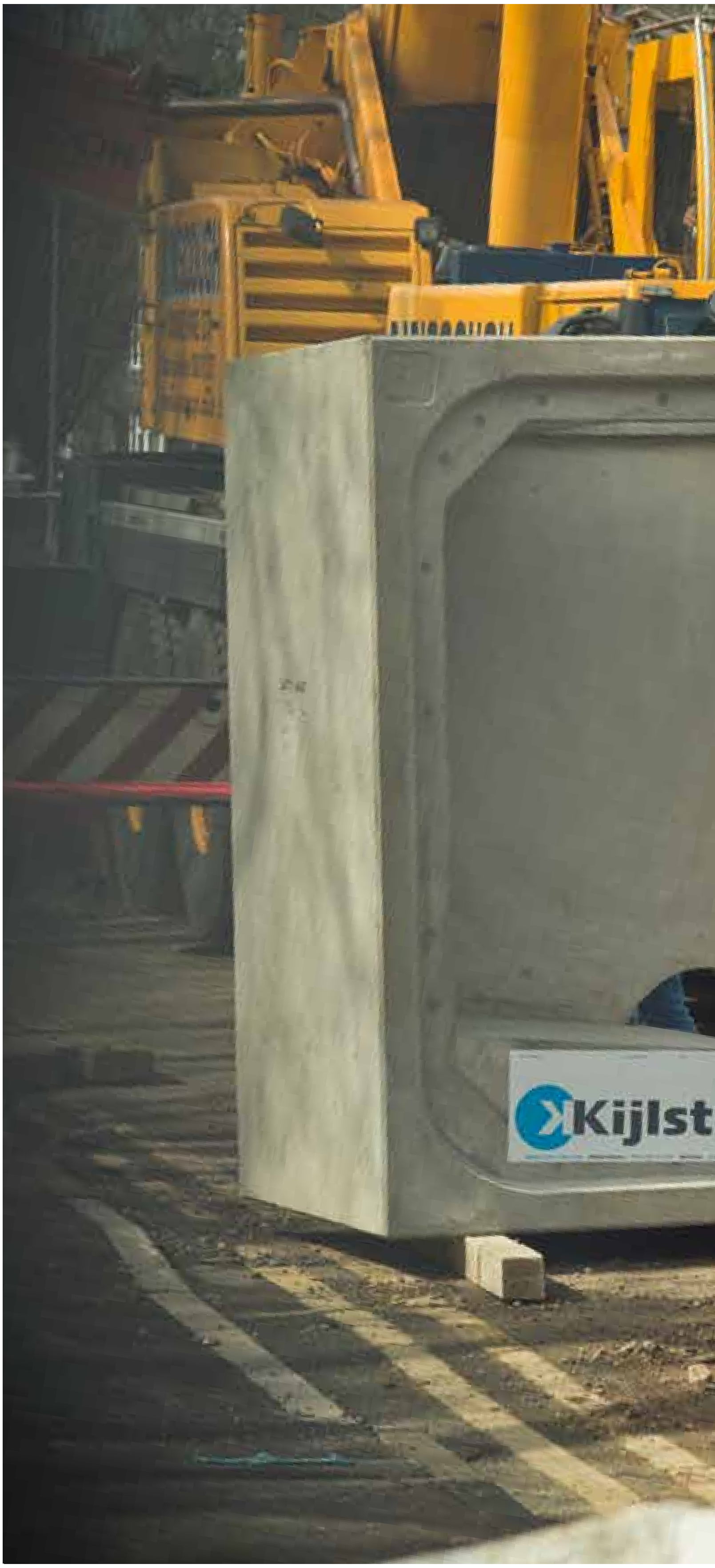
> Customers rightly expect us to provide high-quality services, at the lowest-possible cost. But that cannot be at the expense of the world around us. Our relationship with the environment is precious – and protecting it is something everyone at Welsh Water takes seriously.
>
> **STEVE WILSON**
> Managing Director,
> Wastewater Services

2

OUTCOME 2:
PROTECTING THE ENVIRONMENT

MUMBLES SEWER UPGRADE

In Mumbles, Swansea, we have invested almost £5 million this year in the local wastewater network. The work has involved upgrading or replacing approximately 1km of sewers in the area – which will increase the amount of wastewater that can pass through the system safely. This will reduce the need for the system to release storm water into Swansea Bay during periods of heavy rain, giving greater protection to the local community from flooding and further improving bathing water quality in areas such as Rhossili Bay.



CASE STUDY

INVESTING IN OUR SEWER NETWORK IN MUMBLES TO HELP PROTECT THE LOCAL ENVIRONMENT

KEY OUTCOMES

OUTCOME 3:
RESPONDING TO CLIMATE CHANGE

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

20%

WE GENERATE AROUND 20% OF OUR ELECTRICITY USE FROM GREEN ENERGY SCHEMES

"Climate change remains one of the biggest challenges we will face in the coming decades. We are committed to working in a cleaner, greener, less-wasteful way in everything we do, everywhere we do it."

TONY HARRINGTON
Director of Environment

HIGHLIGHTS

The World Economic Forum has cited the failure to tackle the causes and effects of climate change as the number one global risk over the next 10 years. Our determination to reduce our carbon emissions, generate our own electricity, and mitigate the impact of extreme weather events on our services has continued apace in 2016-17.

Renewable energy
Welsh Water now has more renewable energy generating capacity ever before. Green energy now accounts for around 20% of our electricity use. The majority largest contributor towards of this last year was generated by our fleet of Combined Heat and Power (CHP) engines, fuelled by the biogas produced at our sludge treatment centres and now generating 39GWh (2015: 41GWh) with a further 13 GWh of biomethane injected into the gas grid at our Five Fords Energy park (2015: 5 GWh).

This has been supplemented not only by the 24,000 solar panels installed on 25 different Welsh Water sites (enough to power 1,800 homes) but also by power now flowing from an organic waste treatment centre adjacent to our wastewater site in Cardiff. The centre, developed and operated by Kelda Organic Energy, produces bio-methane which is converted into 10GWh per annum of green electricity which will be used on site at our wastewater treatment works. This site will generate over 20% of the electricity used by our wastewater site supplementing the 40% we generate ourselves.

Our first gas-to-grid site became fully operational in 2015 at our flagship Five Fords Energy Park in Wrexham, North Wales. 2016 was its first full year of operation and it exceeded expectations putting 13 GWh of green gas into the local gas network generating additional income for the company.

CHALLENGES

Energy use
As a business which uses a significant amount of energy to power our extensive network of sites, pumps and equipment we also need to be more flexible around when we consume energy. During 2016-17, we piloted working with a new partner at one of our sites to help us automatically adjust the power consumption of some equipment within seconds to help the National Grid manage peaks and troughs of energy supply and demand UK-wide.

Extreme weather events
The intermittent extreme weather events we experienced also presented significant operational challenges during the year. We experienced much lower-than-average rainfall over the winter — October to December was the second driest period on record in Wales since 1910 and rainfall was only 58% of the long-term average. We monitored the reservoir levels closely during this period, particularly at Usk Reservoir in the west of the Brecon Beacons National Park which serves Bryngwyn Water Treatment Works, supplying 50,000 households in the Swansea Valley area. We have already taken precautionary measures to help mitigate risks from the prolonged recent dry weather conditions, which includes investing in increasing our leakage detection activity so we could reduce any wastage in our local network, but we have also invested £3 million in refurbishing Manorafon pumping station on the River Towy in Carmarthenshire. This will enable us to nearly halve the amount of water we need to draw from the reservoir on an ongoing basis in order to supply our customers in the Swansea Valley.

LOOKING AHEAD

Climate change
Extreme weather events now often impact on the services we provide, including increasing flooding from surface water and sewers. This is a complex problem which requires close collaboration with other organisations to help reduce the threat of disruption to customers.

Review of drainage responsibilities
During several extreme weather events in 2016-17, customers experiencing surface water flooding were directed to us despite the fact that the drains in question may not be our legal responsibility. We therefore support the Welsh Government's review of the complex arrangements surrounding the ownership and management of wastewater and drainage assets in Wales. We would like to see this framework simplified from the current fragmented approach, and for any future arrangements to be easy for customers to understand, and ensure the best provision of services to our communities and environment.

This work will be informed by the well-received review that we chair on behalf of the industry, Water UK's 21st Century Drainage programme. To date this has involved representatives from some 45 organisations, including central and devolved governments and principal regulators, exploring how we can collaboratively create more resilient drainage systems to help reduce the flood risk in sewers and urban areas.

RainScape
To help protect the local environment and local communities from flooding, we are also continuing to invest — £113 million — in new sustainable urban drainage techniques called RainScape in the Llanelli and Gowerton areas. The programme allows sustainable drainage systems to be refitted in order to prevent storm water entering into the combined sewerage system.

3

OUTCOME 3:
RESPONDING TO CLIMATE CHANGE

GENERATING RENEWABLE ENERGY

With an annual energy bill of £44 million, we have been looking at ways to generate electricity on our sites so that we can reduce our carbon footprint and the cost of buying in energy. Our first wind turbine, at Swansea Bay Wastewater Treatment Works, was commissioned in September 2016 and is capable of generating over 1,900 megawatt hours per year — enough to meet 27% of the energy the treatment works needs to operate — or enough electricity to power nearly 600 households. This is saving us £400,000 a year in electricity costs. The Swansea wind turbine has been shortlisted by one of our capital partners as part of its global awards scheme given its construction had near-zero impact on the environment. We have since built on this success by installing our largest wind turbine yet at Nash Wastewater Treatment Works in Newport in early 2017.

CAN GENERATE OVER 1,900 MEGAWATT HOURS PER YEAR

27% OF THE ENERGY THE TREATMENT WORKS NEEDS TO OPERATE

SAVING US £400,000 A YEAR IN ELECTRICITY COSTS

CASE STUDY

OUR NEW WIND TURBINE
AT SWANSEA BAY

KEY OUTCOMES

OUTCOME 4:
CUSTOMER SERVICE

WE WILL CONTINUE TO PROVIDE OUR CUSTOMERS WITH EXCELLENT CUSTOMER SERVICE

99%

WATER SERVICES CUSTOMER SATISFACTION

96%

WASTEWATER SERVICES CUSTOMER SATISFACTION

“Our not-for-shareholder vision is focused on earning the trust of our customers, every day. We invest in our colleagues, our network and our services to make this vision a reality. Customers want to know we have tried all we can to deliver the best service, every time.”

ALUN SHURMER
Director of Customer Strategy and Communications

HIGHLIGHTS

Customer satisfaction scores
During 2016 we welcomed independent research from the Consumer Council for Water (CCWater) which found we had secured an industry-leading, and record-high, 99% customer satisfaction rate with our water services and 96% with our wastewater services – higher than the industry average (93% and 91% respectively). The report also found customer trust in Welsh Water is among the highest in the industry with a score of 8.06 out of 10, compared to the industry average of 7.75.

CCWater research
Separate CCWater research in September revealed business customers in Wales were significantly more likely to say they are satisfied with all aspects of their water supply than those in England, as well as showing significantly higher levels of trust. Businesses in Wales were also more likely to perceive value for money than businesses in England (41% for water services compared to 31% in England and 41% for wastewater services compared to 30% in England).

Services to local planning authorities and developers
Our key role in supporting businesses and wider economic growth means we must also provide the best possible customer service to local planning authorities and developers who want to connect to our water and wastewater networks. We are pleased that the WaterUK Levels of Service indicator has placed us in 2nd position for water services and 2nd position for wastewater services compared to other water and wastewater companies. Our work has been informed by a series of well-attended workshops and drop-in sessions for developers during the year, which is supporting and influencing the way we plan and deliver our services.

CHALLENGES

Written complaints
The number of written complaints received in 2015-16 doubled compared to the previous year (2015-16 at 7,128: 2014-15: 3,314), and the number of written complaints remained high in the first half of 2016-17. Our review of the reasons for this has concluded that this was in part linked to the introduction of a more robust process when chasing debt from customers who have not paid their bill – as well as changes to our website to make it easier for customers to contact us by email or online. We had also experienced systems issues following the introduction of a new billing system earlier in the year. After successive years of reducing the number of written complaints we receive, we were determined to stop this trend and initiated a plan to reduce complaints across all business areas. This plan, combining new specialist teams and improved ownership of customer issues, has seen us make significant progress and the number of written complaints received in the second half of 2016-17 has reduced by 43% compared to the first six months. We ended the year having received 6,582 written complaints during the twelve months. On current trajectory, we anticipate a significant reduction in 2017-18.

Ofwat's Customer Satisfaction Survey
Ofwat's Customer Satisfaction Survey (SIM) placed us 5th for 2016-17 out of the 10 water and sewerage companies after we secured second position in 2015-16. A detailed action plan is identifying and addressing the root causes of the service failures which led to the reduction in our SIM rating.

LOOKING AHEAD

Feedback
The need to constantly improve our service is vital in the face of ever-increasing customer expectations. Our customers rightly compare the service we provide with that of the top UK utility companies. We gather customer feedback from a range of sources (see page 15), but to build on this, we started to roll out a Customer Satisfaction App to more than 350 frontline colleagues in water services and wastewater services in early 2017. It enables us to collect real-time customer feedback after we have undertaken work at their properties – and so help improve the way we work.

Personalised interaction with customers
Our MyBill service continues to grow in popularity, with over 61,000 customers registered to receive their bill via email. The continuing rise in the use of social media has also given customers more ways to start and drive conversations with us – and this is why we undertook a review of our digital media capability during the year. Its findings are helping us make sure we are equipped to meet those expectations, while we continue to innovate and improve our processes to keep pace with the challenge of pursuing excellence in customer service.

CASE STUDY

PROVIDING BUSINESSES WITH THE KEY WATER AND WASTEWATER SERVICES TO HELP THEM SUCCEED

4

OUTCOME 4:
CUSTOMER SERVICE

BUSINESS CUSTOMER RETAIL SERVICES

From April 2017, business customers served by companies whose supply area is wholly or mainly in England have been able to choose their retail supplier of water and wastewater services. For our customers (as we are differently regulated as a company based mainly in Wales) only business customers who use very large amounts of water (50ML or more per year) can switch their supplier, and they cannot switch for wastewater or trade effluent services. We have committed to taking our lead from the best in the market to maintain a highly competitive service to all of our business customers, whether or not they are able to switch supplier, and we continue to respond to customer feedback and look for ways to improve our services to business customers.

During 2016, we set up a separate company called Cambrian Utilities Limited and have applied for a licence from Ofwat for Cambrian to operate as a water and wastewater retailer beyond our current operating area. This will enable us to respond to feedback from our business customers in order to serve their associated sites in England.

In an ever changing world, we will always strive to deliver the best possible service to our business customers to help them succeed.

ALUN SHURMER
Director of Customer Strategy and Communications

KEY OUTCOMES

OUTCOME 5:
AFFORDABLE BILLS

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

£5 MILLION

EXTRA FINANCIAL SUPPORT

HELPU TARIFF ANNUAL BILLS CAPPED AT:

£190

£439

THE AVERAGE HOUSEHOLD BILL

17,500

CUSTOMERS HELPED TO REDUCE THEIR WATER BILLS WITH OUR WATER EFFICIENCY 'WELCOME PACK'

1.5 MILLION

LITRES OF WATER SAVED THROUGH WATER EFFICIENCY INITIATIVES PER DAY

HIGHLIGHTS

Affordability
In June 2017 we are announcing an extra £5 million of financial support for our most vulnerable customers. The extra funding – for our flagship HelpU tariff – was made available following the results of our Have Your Say public consultation last summer. The results showed strong support from customers for increasing the financial support given to those customers who genuinely struggle to pay their water bills.

From April 2017, households who have been accepted onto our HelpU tariff now have their annual bills capped at £190 per year. This tariff is available to eligible households with an annual income of £15,000 or less – and customers can contact us directly or via a wider range of partner organisations (including Citizen's Advice, StepChange and registered social landlords). We have trained staff at Housing Associations and Local Authorities as well as a number of voluntary and debt advice services. This is part of a wider effort which is enabling us to help more low-income customers than ever before, totalling over 70,000 now receiving support.

We were also pleased to support CCWater's Tackling Poverty in Wales Together conference in February 2017, to help increase awareness of the assistance available for those struggling to pay

Keeping bills affordable
The average household bill for 2017-18 is £439, compared to £438 in 2016-2017 – an increase of less than 0.25%. This is compared to an average increase of 2% among water companies in England and Wales, increasing the sector's average household bill to £395. Our average bill is higher because of the topography and rural nature of the area we serve as well as the length of our coastline, which means that we need more assets and have had to invest much more in treating wastewater to help protect bathing water quality. Our latest price increase is the eighth consecutive year we have met our commitment to keep the average price increase at, or below, the Retail Price Index measure of inflation, and we plan to continue this trend until at least 2020.

CHALLENGES

Water efficiency
We know that using water efficiently is a key concern for customers and this can help keep bills down. Each year we help over 17,500 domestic customers to reduce their water bills by supplying a water efficiency 'Welcome Pack' when they opt for a water meter, or where a new property is connected to our network. We plan to do more to improve awareness of the benefits of metering, particularly to inform customers that they can benefit from a two-year period in which they can switch back to their previous charging method if installing a meter has not met their expectations. Currently, some 440,000 customers are on a metered supply, and this increases by around 4% every year.

Debt management
Keeping bills affordable also means ensuring that everyone who can pay, does pay, so they don't increase the amount of other customers' bills. We continue to focus on managing bad debt, and this has included creating a new team in the last 12 months to ensure that landlords are aware of their obligations under Welsh Government regulations to inform us of any changes in tenancies. This, combined with a much more robust approach towards recovering debt from those customers who we consider have the means to pay their bills, has helped us to reduce bad debt to £23 million for 2017 (2016: £27 million).

LOOKING AHEAD

Water efficiency portal
To help customers use water more efficiently and reduce bills, we launched a new online portal in early 2017. This signposting service is unique in the industry and offers help and advice to customers – and showcases the water efficiency products we offer.

This is in addition to more targeted initiatives, such as those aimed at low-income household customers, as we know water efficiency is closely linked with affordability. As part of the work we do with our HelpU tariff, we started offering a free domestic water audit and water fittings health checks to customers during 2017. This key initiative is providing some real insight into some of the issues facing our household customers – and will also help inform our thinking around how best to deliver our service commitments.

> Welsh Water is a not-for-shareholder company – and always puts our customers first. We know our supply area includes some of the most deprived areas in the UK and so we view it as part of our mission to help those who are most in need to pay their bills.
>
> **JULIA CHERRETT**
> Managing Director, Retail Services

5

OUTCOME 5:
AFFORDABLE BILLS

CARDIFF FOODBANK

In 2016, we launched an exciting pilot scheme, in partnership with Cardiff Foodbank, designed to raise awareness of the range of support schemes available to low-income customers. Colleagues from the Affordability team in Retail Services have regularly attended Foodbank drop-in sessions across the capital, where they talk to Foodbank users about how our schemes can help reduce their bills and support them to pay towards their bills with regular instalments.

Ulf Dahlström, a Foodbank service user from Llanedeyrn in Cardiff who signed up to HelpU (our tariff scheme) last year, said:

“I signed up to the scheme when I went into my local Foodbank. I was thousands of pounds in arrears. I am on benefits. There was no way I had that type of money. I signed up to this scheme and within six months half the debt was cleared. Within 12 months, the whole debt will be cleared. It was a great weight off my shoulders, because I won’t owe this money that I haven’t got.”

CASE STUDY

LORA GLAVIN AND HELPU CUSTOMER ULF DAHLSTRÖM

KEY OUTCOMES

OUTCOME 6: **LOOKING AFTER OUR ASSETS**

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

£159 MILLION

WATER SERVICES INVESTMENT

£162 MILLION

WASTEWATER SERVICES INVESTMENT

"With hundreds of treatment works, tens of thousands of kilometres of pipes and dozens of reservoirs in our most-prized beauty spots, we have a big responsibility to make sure our network is up to the task of providing the best-possible services to our customers at an affordable price. Preserving and investing in these assets on behalf of our customers is at the heart of our work."

PETER PERRY
Chief Operating Officer

HIGHLIGHTS

We know providing a high-quality water and wastewater service depends on an extensive programme of planned maintenance, renewal and improvement. We invested £159 million in our water services and £162 million in our wastewater services during 2016-17.

Asset condition
Asset serviceability is the key measure used by Ofwat to monitor how water companies invest in their assets to keep services at an acceptable level. Companies can be assessed as either "improving", "stable", "marginal", or "deteriorating" – in 2016-17 we were rated as stable for all of our assets.

Operational challenges
This has been a year of an unprecedented number of operational challenges across our extensive network of assets, including:

- avoiding any impact on water supplies to 80,000 affected customers after a major landslip at Pontsticill Water Treatment Works in Merthyr Tydfil in April 2016 destroyed a building which housed part of the incoming electricity supply to the site;
- suspending operations at Bretton Water Treatment Works in North Wales in April, after a pollution incident on the River Dee. We re-directed a temporary alternative supply, avoiding any interruption to supply for around 70,000 affected customers;
- replacing part of a burst water main in Pontypridd, South Wales, avoiding any interruption to supply for around 60,000 customers;
- successfully completing one of the most difficult dam engineering repairs we have ever undertaken in September at Elan Valley in mid Wales (see page 25);

The way we manage such incidents is under constant review and key lessons are learned. This also applies to other incidents, such as a burst water main in Swansea in October, which unfortunately impacted around 5,000 customers.

Information and Communications Technology (ICT) infrastructure
As well as our hard engineering assets, our ICT infrastructure is critical to the way we work and we completed our most ambitious change programme ever during the year when we successfully changed IT provider. The investment in the transition process will provide our colleagues with the secure and progressive platforms needed to help us improve the way we manage our assets and deliver our services (see page 62).

CHALLENGES

Supporting development
We must balance the need to protect our extensive network of assets with our key role to facilitate economic growth by supporting sustainable developments. We must step up to the challenge of supporting and enabling development while protecting our assets and network. With the population of Wales expected to increase by 6% by 2035*, we will continue to liaise closely with local authorities, in particular in our new role of statutory consultees, as they update their Local Development Plans to ensure we can continue to provide the best possible water and wastewater services to customers now, and for years to come.

Emergency responses
As we provide the most essential of public services, the importance of being prepared for all eventualities is embedded within all our activities. We have a comprehensive set of emergency plans to ensure we are prepared for, and can respond to, incidents to ensure our services remain resilient. During 2016-17, the company invoked its Tactical or Strategic Command structure, known as Silver and Gold, the nationally recognised generic framework for the command and control of major incidents, over 70 times in order to deal with various operational incidents – including water supply issues, sewer flooding and dam repairs relating to some of our key sites.

LOOKING AHEAD

Resilience planning
As we begin planning for the next investment period, our approach in this area remains unchanged. Planning to deliver a resilient service is embedded in what we do as we want to ensure that we meet the needs of our current customers without compromising the ability of future generations to meet their own needs. We know challenges such as demographic changes, climate change, environmental policy, and regulatory change will all need to be built into our wastewater modelling and water resource management plans, so we can ensure we have an asset base that is both fit-for-purpose and resilient in the future. The consultation on Welsh Water 2050 is intended to help us achieve our vision to become a truly world class, resilient, and sustainable water service for the benefit of future generations (see page 55).

*Based on projections by the Office of National Statistics

CASE STUDY

SOPHIE HOWE
FUTURE GENERATIONS COMMISSIONER

6

OUTCOME 6:
LOOKING AFTER OUR ASSETS

INNOVATION

We know we cannot overcome all the challenges we face on our own, and this is why we invested around £8.3 million this year in developing innovation within the company, working in partnership with other bodies. Our annual Innovation Conferences are vitally important in helping facilitate collaborative work. The fourth of these was held in January at Swansea University's flagship campus in the Bay with Sophie Howe, Future Generations Commissioner for Wales, as keynote speaker. These events bring together more than 300 delegates from industry and academia to work together on learning from international best practice and developing solutions to some of our biggest strategic challenges.

“

The business sector has much to gain from thinking and embedding the sustainable principle into new ways of working, and Welsh Water has a crucial role in ensuring the well-being of future generations in light of the challenges we face with climate, economic and population change. Innovation and new technologies play an important part in the future but for us to make real, transformative change we need to work together in a joined-up way, planning for the long-term, involving people in the decisions that affect them, making sure that our actions today leave a Wales that is fit for future generations.

SOPHIE HOWE
Future Generations Commissioner for Wales

”

KEY OUTCOMES

OUTCOME 7: **DEVELOPING AND PROTECTING OUR PEOPLE**

WE WILL DEVELOP A TEAM OF PEOPLE WHO WILL PROVIDE A GREAT SERVICE TO OUR CUSTOMERS AND WILL WORK TO KEEP THEM SAFE AT ALL TIMES

HIGHLIGHTS

Whatever the job, however urgent the deadline, we never compromise on the health and safety of colleagues. Nothing is so important that we cannot take the time to do it safely – and protecting the health and wellbeing of colleagues is one of our core responsibilities.

Health and safety

We are pleased with the continued good progress in this area and delivered our best ever performance in terms of RIDDOR incidents (Reporting of Injuries, Diseases and Dangerous Occurrences) with 12 incidents in 2016-17, compared to 19 in 2015-16, and an average of 25 for the period 2010-2015. This has also been a key focus for our Capital Alliance Partners who, along with our in-house Capital Delivery team, reached an important milestone this year with over three million hours worked without reporting any RIDDORs. These achievements were noted during our 10th annual Health and Safety Awards in 2016, involving more than 300 colleagues from Welsh Water and our contract partners.

The importance of colleague safety was reinforced during the year after two Welsh Water sub-contractors sustained injuries in late April while working at a pumping station in Nantgaredig, near Carmarthen. Both required hospital treatment and we worked closely with the company involved and the Health and Safety Executive to understand why this happened and how to avoid such accidents in the future.

We will continue to demand the very highest Health and Safety standards from all our colleagues and across our supply chain. We drive these high expectations primarily through our bi-monthly Health, Safety and Wellbeing Steering Group, which is chaired by Peter Perry, Chief Operating Officer, along with the director-led "stand-down" training days to discuss specific topics relating to Health and Safety.

HIGHLIGHTS

Health is the new safety
In addition to keeping our colleagues safe, we are also committed to helping them stay healthy. During the year, we delivered a wide range of initiatives to improve the health of our colleagues. These have included hosting well-attended annual health surveillance assessments, "Wellbeing" clinics, accelerating referrals to our occupational health service, as well as introducing expedited access to physiotherapy, discounted gym memberships and cycle to work scheme.

Diversity initiatives
To achieve our company objectives, we also need to be a great place to work and recognise the importance of developing a workforce with a diverse range of backgrounds, ages, skills and experience, and making sure everyone feels included, empowered, and can contribute to the work we do. This is one of the reasons we decided to become an official supporter of Chwarae Teg in 2016, a Welsh charity dedicated to breaking down gender stereotypes and helping women reach their full potential. As 71% of our workforce are men, this relationship will help us gain valuable insight into how we can adapt our recruitment, skills development, and working practices to attract more women into the business and help them to develop to their maximum potential.

Employee Engagement
Our focus on maintaining high levels of employee engagement led to an increase in our 2016 Employee Engagement Survey with engagement rising to 77% (2015: 71%) with a record response rate of 81% (2015: 77%).

Recognition of our workplace schemes
During the year, we were recognised with two major awards, which highlighted how we are now firmly established as a leading workplace for apprentices and graduates. We were awarded the Graduate Scheme of the Year at the UK-wide Personnel Today Awards for our work in employing and mentoring graduates as well as being recognised as the Large Employer of the Year at the Apprenticeships Cymru Awards. With 46 graduates, 59 apprentices and 49 trainees across the business this year, this is very much part of our long-term succession strategy. With an ageing workforce, we need to continue to recruit new talent through these initiatives and have structured training frameworks in place to help them progress and develop so that they can help us continue to evolve and deliver the best possible service to customers.

CHALLENGES

Developing our people
Ensuring our colleagues have the required skills is important to helping us achieve our goals. Investing in our people is therefore key and a number of senior customer service and operational managers participate in an Innovation Programme designed with Cardiff University to enhance capability and build high-performing teams versed in topics including change, innovation and collaboration.

The past 12 months have not only tested the resilience of assets – but also the resilience of our people. Our colleagues often go the extra mile to help mitigate the impact of incidents on our services and customers. Situations like these can be extremely challenging – and so we are determined to further help colleagues deal with the stresses and strains of managing these incidents with workshops to help them improve their personal and emotional resilience.

Pensions
With effect from 31st March 2017, all sections of Welsh Water's defined benefit pension scheme were closed to future accrual, with the exception of 18 members whose pensions are protected under statute. Members of the DB scheme have since been enrolled into the Company's defined contribution pension plan – the Group Personal Pension Plan.

LOOKING AHEAD

Wellbeing initiatives
We are developing a Wellbeing Champions programme to help protect our colleagues. These Champions will positively support mental health and wellbeing in the workplace by promoting awareness amongst local teams, encouraging colleagues to access relevant support, and mentoring colleagues who may be at risk of workplace stress.

We are also keen to become a Smoke-Free Workplace. This will help us not only protect colleagues and visitors in our workplaces from exposure to second-hand smoke, but we will directly support other colleagues to stop smoking to improve their general health and wellbeing.

After securing the Gold award as part of the Welsh Government's Corporate Health Standard in 2016, we aim within the next 18 months to apply for the scheme's Platinum standard for organisations and companies implementing practices promoting the health and wellbeing of their employees.

> At the core of great service are great people – and our people are our greatest asset. Attracting, developing and retaining people with the skills, personality and passion synonymous with Welsh Water is essential to earning the trust of our customers and making us an employer of choice.
>
> **LINDA WILLIAMS**
> Human Resources Director

CASE STUDY

DONNA HARTLEY
INSTRUMENTATION, CONTROL AND AUTOMATION TECHNICIAN

7

OUTCOME 7:
DEVELOPING AND PROTECTING OUR PEOPLE

GRADUATES AND APPRENTICES

Donna Hartley joined Welsh Water as Instrumentation, Control and Automation Technician, Cardiff and Afan Wastewater Treatment Works in 2015.

“I'd been looking to change my career to a more practical role for a while, as I no longer found working in administration fulfilling or challenging. When I saw the Welsh Water apprenticeship I thought it not only sounded really interesting but thought it looked really well-structured too. As a technician my role is really varied so it's hard to say what an average day is like; one day I could be checking level probes in the boilers and another I could be looking to find faults or make adjustments so processes can run more efficiently. That's one of the things that makes the job so interesting – you never quite know what you could be doing from one day to the next.”

KEY OUTCOMES

OUTCOME 8:
AN EFFICIENT BUSINESS

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

“

Welsh Water is here to serve the interests of our customers only, not narrow interests of shareholders. Running the business on their behalf means continuing the progress we have made in strengthening of our financial position since 2001, so we can invest to meet future challenges and our customers' high expectations.

PETER BRIDGEWATER
Finance and Commercial Director

”

£350 MILLION

INVESTED IN OUR SERVICES

£406 MILLION

PLANNED INVESTMENT FOR 2017-18

HIGHLIGHTS

During 2016-17, we invested £350 million in our services as part of our record investment programme that will be delivered during the five years to 2020 as agreed with our regulator, Ofwat.

Return of value
In June 2016, we also announced that our financial performance enabled us to invest an extra £32million of added value in the services we provide to customers. This money is helping us improve the quality of our water and wastewater services, increase the support we give to customers struggling to pay their bills and enhance some of our community recreational and visitor centres. For 2017-18, we plan to invest an additional £34m on behalf of our customers (see page 17), informed by our biggest ever consultation with customers.

Cash collection
Our cash collections have continued to improve as a result of our continued investment in this area, with our bad debt charge falling from £27 million last year to £23 million this year. Ensuring that those customers who can afford to pay their bills actually do so is an important element in ensuring that we keep our bills affordable. This is supported by our industry leading range of generous customer assistance tariffs for those customers who genuinely struggle to pay their water bills.

Gearing
Our regulatory gearing has fallen to 56%, down from 57% in March 2016 and 93% on Glas Cymru's acquisition of Welsh Water in 2001. We aim to maintain regulatory gearing at around 60%. This is the most efficient balance between maintaining strong access to low cost debt (as a result of our excellent credit ratings) and releasing cash to improve our services even further. Our credit ratings are the best in the UK utilities sector, with our bonds rated A2/A/A by Moody's, Standard and Poor's and Fitch respectively (in November 2016, Moody's upgraded our rating from A3 (positive outlook) to A2).

CHALLENGES

Efficiency improvements
We are continuing to deliver our commitment to customers and regulators to make record levels of capital investment. We are also committed to reducing the average household customer bill in real terms; we can only do this by making ongoing and sustained efficiency improvements in the way we operate and finance the business

We will need to meet challenging targets for costs efficiency and customer service to achieve the best outcome in the 2019 regulatory price review process.

LOOKING AHEAD

Cost efficiency
We take a longer term view of the most cost effective way to deliver and improve our services to our customers. This means that we assess the most cost effective solution to a problem, considering operating costs, maintenance costs and capital investment over the long term, rather than focusing mainly on the current or the 2020-25 investment period. Our long term strategy, Welsh Water 2050 (see page 55) underpins and informs these investment decisions.

Commercial Opportunities
We have agreed with Members and investors that we will consider investment in commercial opportunities related to water cycle management and related areas within the UK. In 2016-17 our laboratory services at Glaslyn and Bretton provided temporary analysis services to South Staffordshire Water, generating over £1m of additional revenue for Dŵr Cymru Cyfyngedig, which will help us to keep bills for our customers as low as possible.

Corporate Restructure
From 1 March 2016 we have operated with our new corporate structure, intended to enable commercial projects to be pursued under Welsh Water Infrastructure Limited, a new wholly owned subsidiary.

8

OUTCOME 8:
AN EFFICIENT BUSINESS

TRIAD PERIODS FOR ENERGY USE

Our colleagues are playing their part in helping us become more efficient as a business. This involves finding innovative ways to help by sharing ideas on managing costs and achieving efficiencies in our day to day work. This is why we introduced internal "Low power Hour" warnings during the 2016-17 Triad periods.

Triads are the three highest half-hour periods of electricity demand between November and February each year, typically occurring during periods of cold weather around 5-6pm, when industrial demand coincides with the domestic dinner time period. This is when electricity is at its most expensive and so we now routinely call on all 3,000 colleagues to switch-off non-essential equipment during these peak periods. This is helping us reduce our energy costs and has led to significant savings during 2016-17.

CASE STUDY

8

OUR JOURNEY TO 2020

The water industry operates on a five yearly revenue cycle and we are currently half way through our Business Plan 2015 to 2020 period.

The table below tracks our current performance against the targets we have agreed with customers and regulators for 2020.

We are committed to openly reporting on our performance across all these measures so that we can aim to provide the very best levels of service to our customers.

	MEASURES OF SUCCESS	2016-2017	2019-2020	ON COURSE TO MEET 2020 TARGET
OUTCOME 1	**A1a** Safety in Drinking Water (% compliance)*	99.99	99.99 (Internal BP target)	✓
	A1b Safety of Drinking Water (% Mean zonal compliance)*	99.97	100	✗
	A2 Customer acceptability (contacts p/1,000 pop)*	2.88†	1.23	✗
	A3 Reliability of Supply	12.2	12	✓
OUTCOME 2	**B1** Abstraction for water for use	100	100	✓
	B2 Treating wastewater*	99.47	100	✗
	B3a Preventing pollutions (cat 1,2&3)*	114	131	✓
	B3b Preventing pollutions (cat 3 only)*	111	131	✓
OUTCOME 3	**C1** Responding to climate change	13,661	25,000	✓
	C2 Carbon footprint	86.5	100	✓
OUTCOME 4	**D1** SIM	83	Upper Quartile	-
	D2 At Risk Customer Service	575	425	✓
	D3 Properties flooded in the year	242	269	✓
	D4a Business Customer Satisfaction (%)	90.82	93.55 (Internal BP target)	✓
	D4b Non Household Customer Satisfaction (%)	89	90	✓
	D5 Earning the Trust of Customers (%)	85	75	✓
OUTCOME 5	**E1** Affordable Bills (% below inflation)	-1	-1	✓
	E2 Help for Disadvantaged customers	71,167**	100,000	✓
OUTCOME 6	**F1** Asset Serviceability	Stable (x4)	Stable	✓
	F2 Leakage	175.43	169	✓
	F3 Asset Resilience (Water/Waste Water)	89.5/73.6***	87/78	✓
OUTCOME 7	**G1** Riddor Incidents	12	10 (Internal BP target)	✓
	G2 Competence in Role(%)	87	95 (Internal BP target)	✓
OUTCOME 8	**H1** Financing Efficiency (credit rating)	A/A2/A	A/A2/A	✓

† excludes private customer issues
* calendar year measure
** includes Water Collect customers
*** calculated using list of assets at the time of the Ofwat Final Determination for PR14.

9

WELSH WATER **2050**

In the water industry, many of the decisions we take today will have a major impact on our customers, the economy and the environment for decades to come. This is why it is important that we are clear about our long term objectives and how we plan to achieve them.

We want to become a truly world class, resilient and sustainable water service for the benefit of future generations.

To achieve this, we have developed one of our most ambitious plans yet — 'Welsh Water 2050'. This not only identifies significant trends over the next 30 years, how these will impact on our company and customers, and how they will be addressed, but it also proposes how we can mitigate the challenges and harness the opportunities presented by these trends:

- Demographic change
- Environmental change
- Changes in customer expectations
- Policy and regulatory change
- Climate change
- Protecting essential infrastructure
- Changes to the structure of the economy
- Protecting public health

We have developed 14 strategic responses, which set out a plan for action to respond to these trends so that we can continue to meet our customers' needs in the future and which will help us achieve our vision for a world class and sustainable water service in 2050:

1. Safeguarding clean drinking water by working with nature
2. Enough water for all
3. Improving the reliability of drinking water supply systems
4. Protecting our critical water supply assets
5. Achieving acceptable water quality for all customers
6. Towards a lead-free Wales
7. Addressing the needs of our 'worst-served' customers
8. Employer of choice
9. Leading edge customer service
10. Smart water business
11. Using nature to reduce flood risk and pollution
12. Cleaner rivers and beaches
13. Protecting our critical wastewater assets
14. Playing our part in combating climate change

We are consulting with customers and stakeholders on Welsh Water 2050 and plan to publish a final version of Welsh Water 2050 in 2018. This document will set the long-term context within which we will develop our future 5-year investment plans, particularly for 2020-25 (AMP7), which we will be submitting to the industry regulator (Ofwat) in September 2018. Before then, we will be engaged in a far-reaching customer involvement programme to ensure that our plans are driven by the priorities of our customers, in terms of current service improvements, progress towards the goals set out in Welsh Water 2050 and the affordability of bills over the next 10 years.

10

OUR BOARD OF DIRECTORS

SEE PAGE 67 FOR FULL BIOGRAPHIES

Standing left to right: **Chris Jones** Chief Executive, **John Warren** Non-Executive Director, **Professor Stephen Palmer** Non-Executive Director.
Seated left to right: **Joanne Kenrick** Non-Executive Director, **Peter Bridgewater** Finance and Commercial Director

DIRECTORS

Standing left to right: **Graham Edwards** Non-Executive Director,
Menna Richards Senior Independent Director, **Peter Perry** Chief Operating Officer
Seated left to right:
Anna Walker Non-Executive Director, **Alastair Lyons** Chairman

11

OUR **REGULATORS**

The water and wastewater industry in England and Wales is regulated in three key areas, namely: financial and economic, environmental, and water quality.

These regulators aim to protect consumers and the environment and they monitor the performance of each company carefully. We always try to develop, maintain and enhance our relationships with these regulatory bodies to help shape balanced investment programmes which address the needs of all of our customers and stakeholders while also contributing to our ability to create value.

Copies of the reports published by these regulators on Welsh Water's performance can be found on our website **dwrcymru.com** or on the website of the relevant regulator.

Ofwat
Welsh Water is regulated, on economic matters, by the Water Services Regulation Authority (Ofwat), which regulates all water and wastewater providers across Wales and England. Limits over water and waste charges are set on a five-yearly cycle by Ofwat, informed by the policy context set by the Welsh Government and other regulators.

ofwat.gov.uk

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

hse.gov.uk

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

gov.wales

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

defra.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

The Water Redress Scheme (WATRS)
The independent adjudicator for disputes between customers and the water and wastewater 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/government/organisations/environment-agency

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/english

12

OUR APPROACH TO **RISK MANAGEMENT**

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

Our systems of internal control are designed to identify, evaluate and manage risks affecting the business. The Board regularly assesses the principal risks facing the company and our tolerance of risk in these key areas. This assessment is then used to inform decision making including decisions concerning our investment programme. Given our not-for-shareholder model, using this approach helps us to focus funds, which might go to shareholders in other organisations, to make additional investments. The internal controls to ensure that risks are adequately managed are also considered and monitored by the Audit Committee. Action plans with agreed timescales are adopted and tracked.

Our approach to risk management:

- Individual teams within the business take responsibility for managing risks within their areas of responsibility.
- Each business unit feeds into a "bottom up" risk management system. 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 carries out an in-depth review of strategic risks twice every year. The Board has 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.
- 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 and External Auditors, including our technical adviser on regulatory reporting issues (Jacobs Engineering Group).

NOTE ON SIGNIFICANT DISPUTES WITH THE POTENTIAL TO IMPACT THE COMPANY:

Tata Steel
The final pricing determination in respect of the supply of water to Tata's sites in Wales has been received from Ofwat: we are considering the implications with Tata, and hope to settle the long standing dispute over pricing to supplies at Tata's sites at Llanwern, Shotton and Trostre.

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 around the UK, including areas of the Loughor Estuary, Gowerton and Llanelli catchments. There is an ongoing programme of investment in the area, in particular with regard to sustainable urban drainage systems, which has been welcomed by the European Commission and which will be complete by the end of 2020. Despite this ongoing investment, in May 2017 the Court of Justice of the European Communities issued its judgment in the proceedings against the UK in respect of multiple sites including Llanelli and Gowerton, which found that the UK had failed to comply with the Directive by the required date of September 2014.

Claims under the Environmental Information Regulations 2001 (EIR):
The company has been notified during the year of potential claims under the EIR relating to charges previously levied for drainage and water searches carried out since 2004, which it argued should have been provided free of charge. To date, very little detail has been provided in relation to the claims and the indicated potential quantum claimed is unclear. We intend to defend the claims, the quantum of which is not expected to be material in the context of the Report and Accounts.

KEY RISKS FACED BY THE GROUP

The analysis below focuses on those risks that would threaten the company's future performance, solvency or liquidity. The risks are not ranked in order of significance/severity.

Key Risk and Severity	Potential Impact	Mitigation	Changes over the period	Trend relative to last year
Health and 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 of a member of the public, on one of our sites or as a result of our actions, or to an employee in discharging their duties. We are responsible for the Health & Safety of around 6,000 employees either employed directly or by our Capital Partners. On average there is one death a year in the water sector caused by accidents.	While we recognise the impossibility of eliminating all risks in this area in a business which is fundamentally concerned with engineering and construction, we take all reasonable steps to minimise this and give the utmost priority to ensuring the safety of our colleagues, contractors and customers. Maintaining good standards of Health and Safety is the responsibility of every team. Each employee has a Health and Safety personal objective in their Performance Management Review process. Teams work to a Health and Safety Strategy and Management Plan with operational procedures accredited to OHSAS 18001 and subject to external independent assessment. In addition the business adheres to a STEP (Safety Takes Every Person) safety culture improvement plan and training programme which includes leadership safety conversations. We also work with Trade Union Health and Safety Consultative Forums at both Company and operational levels.	The risk rating was reviewed following the Panel of Inquiry following the Nantgaredig incident but the risk score was reconfirmed given the feedback from HSE. Reportable Injuries have reduced in 2016-17. We have been asked to join the HSE 'Estates Excellence' programme where we will work with HSE to help SMEs in Wales improve Health and Safety at work. In April 2016, we experienced our most serious incident for many years, when two sub contract electricians were seriously injured at Nantgaredig pumping station. The incident was subject to a formal Panel of Inquiry reporting to the Chair of the Quality and Environment Committee (QEC). The business responded quickly to the incident with a series of Safety Alerts and two stand down days. The Health and Safety Executive (HSE) investigated and concluded that no enforcement action should be taken against Welsh Water.	◀ ▶
Major Public Health Incident	A sustained problem with drinking water quality (e.g. cryptosporidium or bacteriological failures) would require a widespread boil water notice and could lead to a high profile prosecution. 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. The water production managers and process scientists monitor and manage risk using Drinking Water Safety Plans which are viewed as a 'good practice' approach by the Drinking Water Inspectorate (DWI). The Managing Director of Water Services is responsible for the development of water quality strategies and these are reviewed by the Head of Water Quality as our independent internal advisor reporting to the Chief Operating Officer. The Quality and Environment Committee reviews the adequacy of improvement strategies and assesses performance against the strategies.	We aim to do all we can to minimise the potential for a large scale public health incident. In 2016-17 we have had two 'short notice' DWI formal audits at treatment works assessing UV and Chlorine Disinfection. No major issues were raised following the audits. Last year we achieved 99.99% overall compliance with Drinking Water Quality standards. There were 34 sample failures in 2016-17 (2015-16: 47).	◀ ▶
Strategic Asset Failure	Failure of a dam, treatment works or strategic network flooding with a risk to life or a potential failure of a works with a potential loss of supply for thousands of customers.	It is not possible to guarantee that we will not experience failure of a strategic asset at some point. Strategic assets are defined by their scale, function and consequence of failure. We have varying degrees of monitoring in place based on risk assessment involving daily inspections for some dams, with other critical above ground assets monitored via telemetry. Pipeline assets are potentially at higher risk of failure due to their operating environment. Our mitigation for strategic pipeline risk includes 24/7 contingency for large scale repairs, however, all strategic assets are also subject to assessment for capital investment and will be covered by appropriate operational maintenance regimes.	During August 2016, a leaking scour pipe was found at Caban Coch dam which resulted in a Gold level response. This situation was safely managed and we pioneered a 'wet side' safe isolation of the main. This issue was identified via our proactive survey of pipe work in dams project. This is a new issue in our Annual Report but is an existing issue in our internal reporting and remains stable.	◀ ▶

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 customer confidence, regulatory action and impact of reputation. 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 customers 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 cost 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. We have a considerable challenge to achieve one water measure, Customer Acceptability Contacts (CAC) due to the predominance of 'soft upland' water and unlined iron water pipes within our asset base. Our Acceptability of Water Operational Improvement Strategy has delivered on all its strategic objectives - improved use of data to inform decision making, changes to operational practices, outsourcing of standpipe hire to reduce the impact of third party users and the introduction of a valve training rig. The next step in the improvement strategy is our Zonal Studies investment programme. This involves an analytical review of water quality, hydraulic and customer performance data to determine investment options within a water quality zone and undertake improvement works most suitable to that zone, for example pipe cleansing or replacement works. Environmental regulation is an area of current uncertainty; although we anticipate some tightening of environmental standards for wastewater effluent, we are also monitoring the likely effects of Brexit in this area.	Broadly, clean and waste performance is very good; however, currently one water measure, CAC remains close to levels that would attract regulatory penalties.	◀ ▶
Failure to deliver the customer service retail plan, including management of bad debt	Failure to deliver cost efficiency, specifically reduction in bad debt and improvements and efficiencies in customer service will lead to a loss making retail business. The cost challenges are complicated by the general economic environment, changes to the welfare benefit system and continuing squeezed living standards which put cash collection at risk.	Our target is to reduce our cost base to below industry average by 2019/20 and to reduce bad debts to £20m per annum by 2020. The Retail Transformation Programme is now in its second year and the initial problems with the implementation of the new billing system have been resolved.	An improved cash collection programme has reduced the risk rating over the period.	▼
Failure to adopt to the challenges and opportunities of sector changes	The risk of failing to meet the challenges and opportunities presented by changes to the regulatory regime (including the introduction of new markets), which could result in an adverse financial settlement at the next price review; the loss of customers and reputation; and competition law claims or regulatory enforcement. Proposed market reforms in Sludge and Water Resources could see some £60 million pa (8%) of revenues subject to some form of market testing or competition.	There is uncertainty as to the extent and form of regulatory and market changes. This should reduce over the next year or so, as policies are refined. Market Opening of non household retail services to competition presents significant opportunities as well as customer service and compliance challenges. Some of these risks may not manifest themselves within the current financial period, but it is important that structural, governance and investment changes are implemented now in order to meet the future challenges and opportunities.	We have taken on new sales and account managers to offer broader products and services to business customers and we are aiming to meet competitive levels and breadth of service for all business customers. We have not experienced any major data issues in preparing for the opening of the market and the introduction of the market operator facility.	◀ ▶

Key Risk and Severity	Potential Impact	Mitigation	Changes over the period	Trend relative to last year
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. A serious data breach could damage our reputation and reduce levels of trust among our customers.	We want to increase awareness of our not-for-shareholder model and the benefits it brings; an engaged workforce that puts customers first; and a clear insight programme that brings together research, engagement and customer performance. Achieving the target risk profile would mean that higher confidence in the business would help to mitigate the impact of any reputational damage from service failures or other risk categories.	The likelihood of this risk increased temporarily during the period as a result of our higher levels of written complaints and ensuing adverse publicity. Improvement plans were put in place which have reduced the number of written complaints and the risk score has been reduced. We are enhancing our existing processes and systems to protect customer data, in part to ensure compliance with the General Data Protection Regulation from May 2018.	◀ ▶
Loss of key talent, capability and competence	The upturn in the economy and investment in industries where we compete for labour present a risk to our ability to attract and retain employees with the skills and competence we require.	We have not yet experienced any significant difficulties, with employee turnover levels at less than 10%. However, we need to be proactive and implement preventative strategies to ensure we continue to be able to attract and retain electricians, instrument technicians, engineers, procurement specialists and our data analysis capability. Due to the expected upturn in construction activity and known trends in automation, some skills challenges are likely in the period to 2020 but should be manageable.	There was no movement in the period.	◀ ▶
ICT risk	A major loss of ICT service puts business performance at risk, whilst several business improvement plans are reliant on new ICT systems. As a business we are heavily reliant on IT enabled systems and processes to deliver service, communicate with customers and to collect income. A major loss of IT service would have the potential to impact on our customers and inevitably adversely affect our reputation with customers, regulators and other stakeholders. Cyber security is an increasing area of focus, particularly given recent incidents in other sectors and the increased regulation of personal data with the implementation of the General Data Protection Regulations.	Over recent AMP periods we have invested heavily in IT systems, with over £90m in AMP 5 (including a new billing system & operating platform) and with a further £75m in AMP6. We have successfully transitioned to a new ICT service provider in the course of 2016-17, which will increase potential for innovative service improvements as well as reduced costs. As with any major business we are very much aware of the threat relating to 'Cyber Security' and regularly review our respective level of protection, as an essential utility service we have close links with the security services via the Centre for the Protection of National Infrastructure (CPNI) and act on alerts generated by them and other recognised sources.	Having completed a successful transition to a new service provider, operational risk in this area is reduced. We monitor our systems and respond to external threats to cyber security as appropriate. We are not complacent and are increasing cultural awareness training despite an increase in awareness of issues illustrated by the results of the 2016 Employee Engagement Survey.	▼
Future funding risk and relationships with investors	The general economic environment and uncertainty around Brexit making raising new debt from banks and bonds more expensive (than price control allowed Cost of capital), or more difficult (with cashflow consequences). Banks may be unable to offer additional finance for a few months.	We are not currently seeing any restriction on raising new debt in the short term (to meet our £500m AMP6 financing requirement). We signed a loan agreement with the European Investment Bank on 20 January 2017 for our application for £250m of additional debt. Our credit rating remains the highest in the industry and gearing is below the target level of 60%. As a domestic focused regulated business, we are less exposed to Brexit financial risk than many UK businesses, however, we will continue to monitor the situation closely.	The risk has currently decreased in likelihood in light of the EIB funding and improved A/A2/A credit ratings.	▼

13

VIABILITY STATEMENT

The Board's business planning process includes consideration of the Group's long-term viability; 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 periods (which run from 2015-2020 and 2020-2025) and consistent with our annual (rolling) five-year business planning process, although this year we have also given consideration to strategy and planning to 2050.

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 2017 business plan (covering the period April 2017 to March 2022).

We have stress-tested the 2017-22 five-year business plan against different financial scenarios which include the estimated impact of each of the principal risks and uncertainties occurring, both individually and together, as well as combining these with fluctuations in assumed inflation and interest rates. This exercise, while hypothetical, creates some very severe scenarios which could threaten the Group's viability. In assessing the financial impact of each scenario, management has taken into account both its own experience and other, publicly available, data. The estimated impact of each scenario being overlaid on the Group's financial plan does not present any material threat to the Group's viability — in the worst case, by 2022 gearing is 2% higher than in the core plan and Customer Reserves are some 4% lower. High and low inflation scenarios also had a relatively small impact on the Group's viability, as both revenues and two-thirds of net debt are inflation-linked. A "crisis scenario" in which all principal risks and uncertainties occur in a high-inflation environment produces a 14% increase in gearing by 2022 and Customer Reserves around a third lower. In this scenario, gearing still remains well within the covenanted level with a good amount of headroom before the trigger threshold is reached. In the case of these scenarios arising, various options would be available to the group in order to maintain liquidity so as to continue in operation. Note that in all scenarios, the Directors have assumed that the Group retains access to relevant markets for refinancing requirements.

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 2022.

GOVER

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

NANCE

PAGE

1

CHAIRMAN'S **INTRODUCTION**

ON BEHALF OF THE BOARD I AM PLEASED TO INTRODUCE THE GLAS CYMRU HOLDINGS CYFYNGEDIG CORPORATE GOVERNANCE REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017.

As a company providing a vital public service, we understand that ensuring the highest standards of governance is crucial to earning the trust of our customers. Our business model makes us different – we do not pay dividends to shareholders, but reinvest any surpluses generated in order to improve our service for current and future customers, to keep bills as low as possible and to support our programme of financial assistance for those who struggle to pay their bills. Good corporate governance is vital to a well-run company as it helps to embed culture and strengthens and supports decision making at all levels of the business. The Board is focused on ensuring good governance and follows the UK Corporate Governance Code as far as possible for a Group owned by a company that is limited by guarantee.

This report outlines the governance framework we have in place and provides information on our Board and Committees. This report also explains how we meet the UK Corporate Governance Code requirements, details of our Membership and our approach to remuneration.

Alastair Lyons
Chairman

8 June 2017

2

THE BOARD OF DIRECTORS

ALASTAIR LYONS (63)
JOINED: MAY 2016
IN POST SINCE: JULY 2016
COMMITTEE MEMBERSHIP:
F R Q N CHAIR

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 Deputy Chairman of Bovis Homes Group plc.

Previous Non-Executive positions
Alastair previously served as Chairman of Admiral plc, Chairman of Towergate Insurance, Chairman of Serco, the international services group, and Senior Independent 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.

CHRIS JONES (53)
IN POST SINCE: SEPT 2013
COMMITTEE MEMBERSHIP:
F N Q

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 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.

A Audit
F Finance
N Nominations
R Remuneration
Q Quality and Environment

SENIOR INDEPENDENT DIRECTOR

MENNA RICHARDS (64)
JOINED: NOVEMBER 2010
IN POST SINCE: JULY 2014
COMMITTEE MEMBERSHIP:
N R

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 President 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.

FINANCE DIRECTOR

PETER BRIDGEWATER (54)
IN POST SINCE: SEPT 2014
COMMITTEE MEMBERSHIP:
F

Experience
Peter joined Welsh Water 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.

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

CHIEF OPERATING OFFICER

PETER PERRY (54)
IN POST SINCE: JULY 2006
COMMITTEE MEMBERSHIP:
Q

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.

Previous Non-Executive 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.

NON-EXECUTIVE DIRECTOR

GRAHAM EDWARDS (63)
JOINED: OCTOBER 2013
COMMITTEE MEMBERSHIP:
A Q

Experience
Graham is currently Chief Executive Officer of Wales & West Utilities. 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 Non-Executive positions
Board member of University of South Wales.

Previous Non-Executive positions
Previous Chair of CBI Wales and Business in the Community Wales and Non-Executive Director of the Royal College of Music and Drama.

A Audit F Finance N Nominations R Remuneration Q Quality and Environment

JOANNE KENRICK (50)

JOINED: NOV 2015

COMMITTEE MEMBERSHIP:

A Q

Experience

Joanne was the Marketing Director for Homebase until the end of 2015. Prior to that, Joanne was CEO of Start, setting up and running HRH the Prince of Wales' public facing initiative for a more sustainable future. Former roles include Marketing and Customer Proposition Director for B&Q, Marketing Director for the National Lottery, and Group Sales and Marketing Director at Wilson Connolly. 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 BACS Payment Services Limited, Safestore, the UK's largest self-storage business and Chairman of trustees of the children's charity Make Some Noise.

Previous Non-Executive positions

Joanne was a Non-Executive Director at Principality Building Society for 7 years.

STEPHEN PALMER (65)

JOINED: OCT 2009

COMMITTEE MEMBERSHIP:

Q CHAIR

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 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.

ANNA WALKER CBE (66)

JOINED: MARCH 2011

COMMITTEE MEMBERSHIP:

A R CHAIR

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 Deputy Chair of the Council of Which?, a member of the Competition Appeal Tribunal and a Non-Executive Director for South London and the Maudsley NHS Foundation Trust.

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.

JOHN WARREN (63)

JOINED: MAY 2012

COMMITTEE MEMBERSHIP:

R A F CHAIR

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 (Holdings) 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

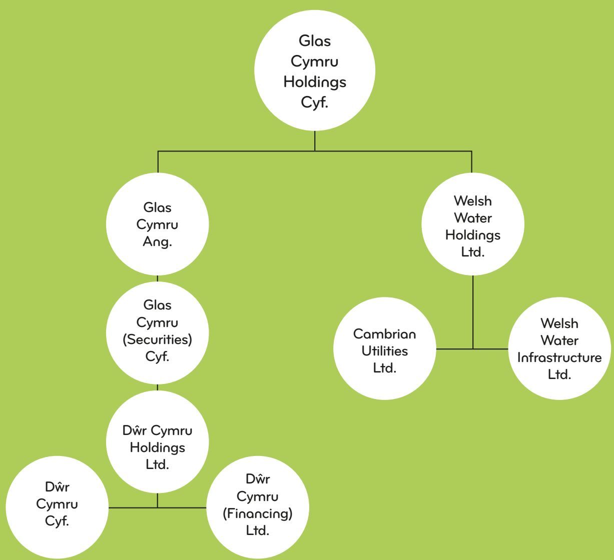
John has been Non-Executive Director and Chairman of the Audit Committee of the following companies: Spectris plc, Rexam Plc, Bovis Homes Group PLC, Rank Group Plc, Uniq Plc, Arla Foods UK plc, BPP Holdings plc.

3

OUR CORPORATE STRUCTURE

Our Financial Statements (from page 115) cover details of the following companies in our Group structure:

- **Glas Cymru Holdings Cyfyngedig** (Glas Cymru) is a company limited by guarantee which was formed on 15 December 2015. We created this new holding company as part of a corporate restructuring which took effect on 1 March 2016, and which allowed us to create limited commercial investments in subsidiaries outside the terms of the Common Terms Agreement with investors.
- **Dŵr Cymru Cyfyngedig** is a wholly owned subsidiary of Glas Cymru and is the Group's principal trading company – referred to as Welsh Water throughout this report. 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.
- **Glas Cymru Anghyfyngedig** is the parent company of the group of companies funded under a Whole Business Securitisation Common Terms Agreement.
- **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 (Financing) Limited** 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.
- **Welsh Water Holdings Limited** is the holding company for companies outside of the Common Terms Agreement.
- **Cambrian Utilities Limited** will offer business utilities retail services.
- **Welsh Water Infrastructure Limited** has been set up to take forward commercial projects.



CORPORATE STRUCTURE

4

ROLES AND KEY RESPONSIBILITIES

MEMBERS

As a Group owned by a company limited by guarantee, we counterbalance the fact that we do not have shareholders by having a Membership which carries out a vital governance role. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of our assets and for providing an essential public service in a manner which will be sustainable for future generations.

Our Members are appointed by the Board but are 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 being Arthur Walford and Menna Richards.

There are presently 68 independent Members of Glas Cymru. Under the Company's Articles of Association each Director is also a Member. During 2016-17, 4 Members stepped down

We hold an AGM and a second Members' meeting to provide a six-monthly update on our performance and strategy each year. We also hold two regional Members' meetings which we move around the supply area to provide a more informal opportunity to gain insight into our working sites and to meet local teams. Members are invited to other meetings and workshops on an ad hoc basis throughout the year.

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 Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig (the licence holder/operating company) are identical, which ensures a unified approach.

CHAIRMAN

Our Chairman, Alastair Lyons, 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. The most recent meeting without the Executive took place at the end of January 2017. The Chairman also meets individually with each Board Member to review individual performance at least once each year.

SENIOR INDEPENDENT DIRECTOR

Our Senior Independent Director, Menna Richards, 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.

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.

CHIEF EXECUTIVE

Beyond matters reserved for the Board, the Chief Executive has primary responsibility for managing the day to day affairs of the company. Our Chief Executive, Chris Jones, is supported by the Executive team in implementing strategy and day to day management.

COMPANY SECRETARY

Our Company Secretary, Nicola Williams is responsible for supporting the Chairman in ensuring that the Group demonstrates good governance. The Company Secretarial team is available to the Non-Executive Directors and works to ensure that there are good information flows between the Board, Committees and management of the company.

5

OUR GOVERNANCE FRAMEWORK

Corporate governance is about how the Board sets the values and decision-making framework of the Group.

We voluntarily comply with the UK Corporate Governance Code as far as possible for a Group owned by a company limited by guarantee. Although we are unable to comply with the provisions set out in relation to shareholders we apply this to our members and investors as far as appropriate. The details of our governance framework are set out on pages 71 to 76. Our economic regulator, Ofwat, has also developed a set of principles which complement the code and represent the minimum standards for Board leadership, transparency and governance for companies in the water sector. We respond to the Ofwat corporate governance requirements in our Governance Code. For further details, please refer to: **dwrcymru.com/governance**.

Corporate governance is about more than how a company is controlled and directed, it is about behaviours, culture and the way that this can improve business effectiveness and improve trust. The culture of the business is set by our Board and aligned to our strategy and vision, but this requires the support of our colleagues throughout the business. Some of the ways the Board sets the culture, include:

- Our Chief Executive holds a monthly telephone conference call that all employees may join to hear updates on the company and ask questions;
- Our Chairman and Directors undertake regular operational site visits and meet with colleagues in the business. This is important in ensuring that that the current issues in the business are understood in context;
- Six monthly Leadership Conferences are held with the Executive team, aimed at Managers from across the business;
- Six monthly employee 'Meet the Director' days with the Executive team are held across the business;
- Responding to feedback from our annual Employee Engagement Survey; and
- Promoting our whistleblowing policy, which includes an external helpline to reassure colleagues that they can raise any issues anonymously should they wish to do so.

UK CORPORATE GOVERNANCE CODE PROVISION — LEADERSHIP

- As we provide a vital public service, we understand that how we are governed is crucial to earning the trust of our customers. It is our vision to earn the trust of our customers every day;
- We are headed by an effective Board which is collectively responsible for the long-term success of the company;
- We have a clear division of responsibilities 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-making;
- Our Chairman is responsible for leadership of the Board and ensuring its effectiveness; and
- Non-Executive Directors constructively challenge and help develop proposals on strategy.

MATTERS RESERVED TO THE BOARD

We have 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. The matters reserved were last updated in December 2016.

The Board delegates responsibility to management for the day to day running of the business according to the strategy set, and to Committees for specific areas as set out in their terms of reference. A forward plan is maintained by the Company Secretary for Board and Committee meetings in conjunction with the Chairman and Committee Chairs. The Executive team is open and transparent in its communications with the Board.

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.

ACTIVITIES

During 2016-17 the areas of focus for the Board have included:

- Operational Oversight of the Glas Group;
- Health & Safety policy and management;
- Business planning
- Customer-led Success Strategy
- Return of Value Consultation
- Customer Distributions
- Welsh Water vision to 2050
- Risk management processes and risk appetite
- Price review preparations
- Commercial opportunities
- Innovation
- Operational plans — such as drought and dam safety plans
- Approving significant capital project investments — such as Zonal Studies and Sludge Strategy

BOARD MEETINGS AND ATTENDANCE

In 2016-17 the Board held 9 scheduled meetings and 3 additional meetings. Most of 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.

All Directors are expected to attend meetings of the Board and of those Committees of 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.

	Board	Audit Committee	Remuneration Committee	Finance Committee	QEC
Total no. of meetings	**12**	**6**	**5**	**1**	**8**
Robert Ayling*	3	1	2	-	2
Peter Bridgewater	11	-	-	1	-
Graham Edwards	12	6	-	-	7
Chris Jones	12	-	-	1	8
Joanne Kenrick*	12	2	-	-	8
Alastair Lyons*	9	-	5	1	8
Stephen Palmer	11	-	-	-	7
Peter Perry	12	-	-	-	8
Menna Richards	11	-	5	-	-
Anna Walker	12	5	5	-	-
John Warren	12	6	5	1	-

*Robert Ayling stepped down in July 2016. Joanne Kenrick joined Audit Committee in October 2016. Alastair Lyons joined the Board in May 2016.

UK CORPORATE GOVERNANCE CODE PROVISION — EFFECTIVENESS:

- 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. The Board regularly reviews this in discussions with the Company Secretary, Nomination Committee and 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.
- All Directors allocate sufficient time to the company to discharge their responsibilities effectively.
- All Board and Committee meeting materials are provided a week in advance.
- Our Non-Executive Directors have access to the Company Secretary and external advisors to provide the Board with an external viewpoint.
- Our 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 — 2011, 2014 and 2017. Results of this year's review can be found on page 74.

APPOINTMENTS

The Board is committed to a transparent process for new appointments and 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. External selection companies are often used to find candidates and support the process. 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 access to past Board and Committee papers, site visits and one to one meetings with senior managers. The Board and Committees undertake training and briefing sessions as appropriate.
In 2016-17 our Board received external competition law compliance training and the Quality and Environment Committee received teach in presentations on innovation, coastal waters and Zonal Studies. Representatives from the Drinking Water Inspectorate and Natural Resources Wales attend the Quality and Environment Committee once a year to discuss our performance. Professor Mark Macklin spoke to the Board on Climate Change issues.

As in previous years, the Board and Quality and Environment Committee have held site visits and meetings around the business. Our Chairman also undertakes regular operational site visits across the supply area which other Non-Executive Directors are encouraged to attend.

BALANCE AND INDEPENDENCE

The Board and Committees have an appropriate composition to undertake their responsibilities effectively, based on a wide range of backgrounds, ages, skills and experience. The Board is satisfied that all Directors have adequate time to commit to their role. 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. Alastair Lyons was an Independent Non-Executive Director from May 2016 until his appointment as Chairman in July 2016.

EFFECTIVENESS REVIEW

The effectiveness of the Board and its Committees is reviewed annually and an independent externally facilitated review is conducted every three years.

In March 2017, an externally facilitated review was undertaken by Ian White an independent assessor of Board effectiveness. The findings of the evaluation were discussed and reviewed by the Board and an action plan agreed. Ian White found the Board is generally operating very effectively in a time of change for both the Group and the Board itself.

Key points identified in the 2017 report included suggestions that the Board should:

- maintain its focus on increasing its understanding of customers, customer segments and customer strategy;
- continue to keep the Board's focus on long term strategy;
- build in a review mechanism of major decisions to assess the quality of the decision making process;
- include more external input from speakers in Board agendas
- keep risk high on the agenda; and
- further develop succession planning of the Board, Executive team and management.

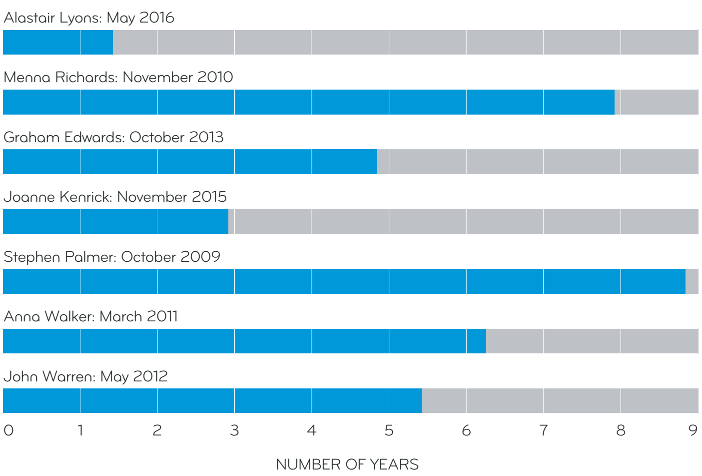
RE-ELECTION OF DIRECTORS

In accordance with the 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.

CONFLICTS OF INTEREST

Under UK company law potential 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. Directors also let the Chairman and Company Secretary know of any pending appointments and announce any new external appointments at the next Board meeting so that all of the Board are made aware.

LENGTH OF SERVICE



GENDER DIVERSITY

The Board is committed to having an appropriate level of diversity across all levels of the business. We currently exceed the Davies 2010 Report suggested targets at Board level for representation of women. Currently, women make up 30% of our Non-Executive Directors, 30% of the Executive team and 45.8% of the Group's wider Leadership Team. The Remuneration Committee is preparing for Gender Pay Gap reporting in 2017.

EXTERNAL APPOINTMENTS OF EXECUTIVE DIRECTORS

Peter Bridgewater is a Non-Executive Director of Ebico Limited, for which he is separately remunerated £15,000 pa.

UK CORPORATE GOVERNANCE CODE PROVISION — ACCOUNTABILITY

The combined Board of Glas Cymru and Dŵr Cymru:

- presents a fair, balanced and understandable assessment of the company's position and prospects.
- determines the appropriate risk appetite in achieving our strategic objectives, whilst ensuring sound risk management and internal control systems.
- have 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 until the end of nine years from appointment following careful consideration as to their continuing independence.

UK CORPORATE GOVERNANCE CODE PROVISION — REMUNERATION

- We have a Remuneration Committee whose report is set out in pages 82-94.
- 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.
- The Remuneration Committee receives advice from external consultants.

UK CORPORATE GOVERNANCE CODE PROVISION — RELATIONS WITH SHAREHOLDERS

- We voluntarily apply many of the shareholder principles on governance to our Members and Investors.
- We have regular dialogue with Members and Investors.
- Our Board uses 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.

ANNUAL GENERAL MEETING DETAILS

Our Members' AGM will be held on Friday 7 July 2017 at the Quay Hotel, Deganwy at 9:30am.

BOARD COMMITTEES

As explained earlier in the report, the Board reserves certain matters to itself. 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. Each Committee of the Board has written terms of reference which summarise the responsibilities delegated to it. The terms of reference are regularly reviewed and approved by the Committee and the Board. 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 made available to Directors. Each Committee can engage the services of such advisors as it needs to fulfil its responsibilities.

Our principal Board Committees are:

Audit Committee	**Nominations Committee**	**Finance Committee**	**Quality and Environment Committee**	**Remuneration Committee**
Chaired by John Warren	Chaired by Alastair Lyons	Chaired by John Warren	Chaired by Stephen Palmer	Chaired by Anna Walker
Report on page 77	Report on page 81	Report on page 81	Report on page 80	Report on page 82

Dŵr Cymru's Executive team (DCE) is our management Committee. It is made up of 10 members of the management team, (including the three Executive Directors). DCE is focussed on ensuring that the business is run according to the strategy set by the Board and on reviewing Key Performance Indicators to ensure that the targets set by the Board are met. Numerous management committees report to DCE.

Our Non-Executive Directors have diverse skills. In addition to chairing or being a member of a Committee, each Non-Executive Director commits additional time and input on the following matters:

Alastair Lyons	General engagement with Executive Directors and operational involvement with regular local site visits
Graham Edwards	Operations and HR related issues
John Warren	Finance and audit
Stephen Palmer	Public Health
Menna Richards	Communications and Member relations
Anna Walker	Customer service, regulation and remuneration
Joanne Kenrick	Marketing, commercial and customer services

Some of our Non-Executive Directors also mentor some members of the management team.

6

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 is set out on pages 59-62. 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 opportunities facing the business;
- 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;
- 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;
- ensuring that financial systems and procedures are fit for purpose for preparing management and financial accounts; and
- an appropriate design of management processes to ensure the effective direction and review of the business' operations supported by accurate and timely key performance indicators.

The Board receives assurance from independent work by Welsh Water's technical advisor on regulatory reporting issues (Jacobs Engineering Group) 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.

7

REPORT FROM THE CHAIR OF THE AUDIT COMMITTEE

Chair: John Warren
Members: Anna Walker, Graham Edwards, Joanne Kenrick

The Audit Committee has had a productive year with a good focus on internal controls and IT and cyber security issues in the business. Joanne Kenrick joined the Committee in November, and has contributed her knowledge of working in large commercial organisations and of marketing, commercial and procurement issues. The Audit Committee meets the requirement to have relevant sector expertise as Graham Edwards is Chief Executive of another utility company and has previous experience of working for another company in the water sector. As Chair of the Committee, I bring financial experience as a chartered accountant having previously worked as Finance Director of WH Smith and chaired Audit Committees in other large companies. The Chief Executive, Finance Director and Head of Business Assurance are regular attendees at meetings of the Committee.

The Audit Committee met on six occasions during 2016-17. Following year end on 31 March 2017, the Committee met on a further two occasions, as in previous years, to receive the report from the external auditors on the 2016-17 annual report, focussing in particular on the key areas of judgement in the financial statement, in order to ensure that the Annual Report for 2016-17 presents a "fair, balanced and understandable" assessment of the company's financial status, in accordance with the UK Corporate Governance Code.

The Audit Committee is supported by the external auditors. The reporting period 2016-17 was the first full year in which the appointed auditors were KPMG, following the formal tender process in 2015. KPMG were appointed in September 2015 for a period of up to five years.

KPMG reviewed the 2016 Annual Report and Accounts and confirmed generally that the Report met the requisite corporate governance requirements, that the strategic report was balanced and comprehensive and that it covered both positive and negative aspects of performance and developments and that a broad range of factors had been considered when determining the principal risks and uncertainties facing the business. KPMG also provided some detailed suggestions on how the strategic report can better link to the financial statements which we have followed up in the context of putting together this year's report.

END OF YEAR FINANCIAL STATEMENTS

As in previous years, the Audit Committee and the external auditors have focused in particular, both on those areas of the financial statements which involved the highest level of management judgement applied to them, and on those which are considered to be the most inherently risky. For the end of year financial statements, these were as follows:

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. The billing system calculates the measured income accrual on an individual meter basis. At 31 March 2017 this estimate was £68.8m, an increase of £3.8m since the prior year end driven principally by growth in the metered customer base. 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.

CLASSIFICATION OF COSTS BETWEEN OPERATING EXPENDITURE AND CAPITAL EXPENDITURE

The company invests a high level of expenditure in fixed assets, including repair and maintenance as well as enhancement. There is 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 net capital expenditure rose in the year to £350m (2016: £262m) as anticipated as the capital delivery teams build capacity during the second year of the five-year investment programme. The Committee was 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. Recent increases in cash collections as a result of ongoing initiatives to improve performance were also taken into account. In making its recommendation to the Audit Committee, management examined cash collection performance for measured and unmeasured customers during 2016-17, concluding that Welsh Water could ultimately expect to collect some 49% of (non billed-in-advance) debt outstanding at 31 March 2017 (2016: 48%). Considering all the historical collection information, the Audit Committee agreed that Welsh Water's bad debt provision be set at £96 million (2016: £85 million) which generated a bad and doubtful debt charge for the year ("trade receivables impairment") of £23 million (2016: £27 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 balance sheet deficit of £92 million, an increase of £38 million since March 2016, 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 compared to counterparties' confirmations before an appropriate "own credit risk" adjustment is applied. The total (net) balance sheet liability at 31 March 2017 amounted to £477 million (2016: £414 million). The Committee agreed that this was a reasonable figure to include in the accounts.

OTHER ACTIVITIES OF THE AUDIT COMMITTEE

The May and November meetings of the Audit Committee, as in previous years, focused on reviewing the Group's preliminary and interim financial results and related areas of judgement and accounting policy.

The Audit Committee relies on the active role played by the Business Assurance (internal audit) function in providing assurance and reviewing the adequacy of internal control and arrangements to manage risk, reporting on this to the Executive team and the Committee. The Committee reviews and approves the Business Assurance plan of work for the year and reviews progress against the plan. During the year, the Head of Business Assurance, Gary Sharland, retired from the company after 39 years' continuous service. Clive Hardy joined the company as Head of Business Assurance in November 2016 from Lloyds Banking Group where he was Head of Audit: Insurance. The review of progress against the Business Assurance plan at the half year was led by the retiring Head of Business Assurance. The new Head of Business Assurance reported on final progress at year end and also developed a robust and challenging plan for 2017-18 which the Committee approved in February 2017. The Business Assurance function is continuing to work closely with the external auditors and also with the Compliance team.

During 2016-17, the Committee continued to use private meetings to review investigations of issues raised by whistleblowers from within and outside the company, in accordance with the established whistleblowing policy. The policy encourages employees and others to report issues, protects individuals who make relevant disclosures and includes the provision of an independent hotline for the reporting of issues. The Committee considers the whistleblowing policy to be an essential element in the system of internal controls.

The Audit Committee also continued to receive independent advice and assurance in relation to the accuracy and completeness of regulatory reporting during 2016-17 from Welsh Water's technical adviser on regulatory reporting issues (Jacobs Engineering Group). Following a tender process, Jacobs were appointed for an initial period of three years in April 2016. Jacobs supported the preparation of the Annual Performance Report which was submitted to Ofwat in August 2016 and also provided input to the Assurance Plan and methodology statements to support the company's reporting against its Measures of Success from the 2016 Final Determination, which will underpin the reporting through the Annual Performance Report in August 2017.

The Committee holds private meetings at least once a year with each of the external auditors and the Head of Business Assurance.

OTHER TOPICS REVIEWED BY THE AUDIT COMMITTEE IN 2016-17 INCLUDED

- Treasury policies and controls, including new arrangements for electronic payments instigated by the Group's new Treasurer, Roger Morgan, who joined us in September 2016 from the Co-operative Group where he was Group Treasurer;
- Cyber-Security, information security issues and IT disaster recovery arrangements, including considering the comparative effectiveness of our procedures for managing risk in this area compared to those establsihed in similar businesses;
- Supplier arrangements and compliance with procurement policies;
- The timetable and processes for finalising the Annual Performance Report;
- The steps taken by the Group to comply with Corporate Governance requirements, including the Modern Slavery Act 2015, data protection legislation and forthcoming requirements on gender pay gap reporting;
- The outcomes of internal audit reports and timescales to complete the recommended actions.

The Committee also reviewed the results of an internal evaluation of Committee performance in May 2016 including an evaluation of the performance of the external auditors. All of the points made were picked up by the Committee and discussed with appropriate members of the management team at meetings during the year.

NON-AUDIT AUDITOR FEES

Our policy is that the external auditors will not generally be used for internal audit services, and that all non-audit matters will be subject to the Group's Procurement Policy. All non-audit fees paid to Auditors must either be approved by the Committee in advance or in an urgent situation approved by the Chair and then reported to the Committee at the next meeting. During the period 2016-17 audit fees for the groups financial statements totalled £140,000 and fees for other assurance services were £128,000. Fees paid in respect of non-audit related services amounted to £194,000. The ratio of non-audit to audit related fees was therefore 1.39x. The Audit Committee is currently monitoring the ratio of non-audit to audit fees in view of the forthcoming changes in guidance for listed companies. Further information is available in the financial statements on page 127.

MEETINGS WITH INVESTORS

The Committee members are available to meet with investors by prior arrangement with the Company Secretary.

John Warren
Chair of the Audit Committee

8 June 2017

8

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

Chair: Stephen Palmer
Members: Graham Edwards, Chris Jones, Joanne Kenrick, Alastair Lyons and Peter Perry
Independent Scientific Advisors: Steve Brown (Environment), Andrew Davies (Water)

The Board has delegated responsibility to the QEC for reviewing and monitoring strategic risk areas of Health and Safety major incidents, environmental regulation, failure to achieve required performance levels, strategic asset failure and major public health incident. The QEC is also responsible for scrutinising operational performance and assessing the appropriateness of improvement strategies for Welsh Water's water and waste water activities.

The QEC also reviews, monitors and influences the health and safety management plan and its delivery, ensures that Welsh Water fulfils its public health responsibilities for the provision of safe, clean drinking water and waste water sanitation in line with all statutory standards. The QEC also ensures the company has adequate emergency and security arrangements in place in line with current statutory guidance such as Critical National Infrastructure (CNI) and Security and Emergency Measures Directive (SEMD) standards.

The QEC reviews and influences the company's non-financial audit programme and receives the findings of internal and external audit reports relating to water and waste water service provision. The Committee 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 made to the QEC detailing root cause, lessons learnt and actions to follow. During 2016-17 Serious Incident Reviews were carried out in respect of water quality or pollution incidents at Mynydd Llandygai, Llwynon and Milford Haven.

The QEC meets key stakeholders on behalf of the Board. During 2016-17 senior management from the Drinking Water Inspectorate and Natural Resource Wales attended meetings.

The QEC plays an important role in encouraging the smart use of data and the adoption of appropriate new technology or other innovation that will improve service to customers and the environment. During 2016-17 QEC were particularly focussed on the progress of Zonal Studies (a structured series of focussed investments aimed at improving Customer Acceptability of water as detailed on page 23) and were particularly interested in the potential benefits of the Igloo (a 3D virtual environment that allows planning of street works from our offices).

Examples of QEC involvement:

- The process of QEC reviewing the appropriateness of improvement strategies and requesting regular updates for any areas of concern has been working effectively. An example where performance has improved, is Customer Minutes Lost (CML). In May 2014 the Committee reviewed the improvement strategy for CML. The 2013-14 performance was at 51 minutes on average per customer and for 2016-17 CML is 12 minutes per customer, which is the Ofwat target for each year from 2017-2020.
- In April 2016, we experienced our most serious Health & Safety related incident for many years, when 2 sub contract electricians were seriously injured at Nantgaredig pumping station. The incident was subject to a formal Panel of Inquiry reporting to the Chair of QEC. The business responded quickly to the incident with a series of 'Safety Alerts' and two 'stand down' training days involving all colleagues. The HSE decided not to take enforcement action against Welsh Water. The business continues to place the health and safety of colleagues, customers and members of the public as its number one priority and QEC is committed to monitoring and supporting this.

The topics covered by the Committee in 2016-17 included:

Water Services:
- Annual review of drinking water quality performance
- Dam safety annual report and improvement strategy
- Lead strategy
- Iron and acceptability
- Service reservoir bacteriological performance
- Customer minutes lost
- Leakage
- Update on the action plan to improve bacteriological performance even further at water treatment works
- Progress update against our catchment strategy with the aim that our catchment will ultimately become our first line of defence
- Cryptosporidium strategy update
- Water fittings regulations
- Tracking of actions from regulatory and operational water quality sample failures

Environment:
- Coastal waters science programme review
- Annual bathing water results
- Pollution
- Flooding and flooding predictor model
- Carbon and energy management/ renewables update
- Environment report
- Flow treated to required levels
- Emergent environmental regulatory risks update
- Odour reduction strategy
- Environmental network strategy
- Private pumping station adoption process

Other:
- Health and safety quarterly reviews. This year the Committee also changed some of the key performance indicators used.
- CNI triennial audit
- SEMD annual report

In December 2016, the Committee decided to reduce the number of meetings it holds a year from eight to six given the prolonged period of good operational performance and effective risk management.

Professor Stephen Palmer
Chair of the Quality and Environment Committee

8 June 2017

9

REPORT FROM THE CHAIR OF THE NOMINATIONS COMMITTEE

Chair: Alastair Lyons
Members: Graham Edwards, Chris Jones and Menna Richards

The role of the Committee is to review the succession planning for the Board and to put in place processes to address this, reporting to the main Board. The Nominations Committee also reviews policies relevant to recruitment, in particular our Diversity Policy.

In 2016-17 the Nominations Committee commenced the process of identifying a successor to Professor Stephen Palmer, who has indicated he plans to step down within the next 12 months or so. After a tender process, Goodson Thomas were appointed to advise the Committee and support the process. Goodson Thomas has no other connection with the Group.

Alastair Lyons Chair of the Nominations Committee
8 June 2017

10

REPORT FROM THE CHAIR OF THE FINANCE COMMITTEE

Chair: John Warren
Members: Alastair Lyons, Chris Jones, Peter Bridgewater

The Finance Committee is established with authority to approve financial decisions quickly on an ad hoc basis between meetings. It is our intention to use this Committee rarely as we generally plan sufficiently far in advance to deal with such issues at Board Meetings. The Finance Committee was used on one occassion in 2016/17, to amend the deposit counterparty structure for the Group.

John Warren Chair of the Finance Committee
8 June 2017

11

REPORT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Chair: Anna Walker
Members: Alastair Lyons[1], Menna Richards, John Warren

On behalf of the Board, I am pleased to present the Remuneration Committee and the Directors' Remuneration Reports for 2017. Good governance and ensuring value for money for our customers are at the heart of the Group's remuneration policies.

HOW PAY IS DETERMINED

The role of the Remuneration Committee is to recommend to the Board for approval, and keep under review, the Remuneration Policy of the Board as it applies across the business as a whole. More specifically the role of the Remuneration Committee is:

- 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; 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 Group.

In carrying out its role, the Committee applies certain key principles (set out below) which it agreed in 2015-16 and which were set out in last year's Annual Report.

During 2016-17, the main activities of the Remuneration Committee have included:

- agreeing the annual pay increase;
- approving the 2016 Remuneration Report;
- assessing performance achieved against the conditions attached to the 2015-16 Annual Variable Pay Scheme (AVPS) and AMP6 Long Term Variable Pay Scheme (LTVPS[2]) 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;
- reviewing the salaries of the Executive Directors and the Chairman's fee;
- commencing work on collating information to enable gender pay gap reporting by April 2018 and committing to address any issues that this process reveals.

THE ROLE OF GLAS MEMBERS

Glas Members play a key role in ensuring good governance in relation to the development and approval of remuneration policies. In accordance with the remuneration reporting regulations applying to UK quoted companies, Members approve by binding vote, at least every three years (or where any significant change is proposed) the Remuneration Policy of the Board. Members approved the current policy at the 2015 Annual General Meeting (AGM) and the policy will therefore be subject to Member approval again at the 2018 AGM, when the Committee proposes to look ahead to the policy which would apply to the next AMP period (2020-2025) and to consider what changes to the policy are appropriate in light of the changes and challenges which the Group is likely to face.

The Annual Report on Remuneration will be subject to an advisory vote by Members at the forthcoming AGM, as usual. At last year's AGM, 100% of Glas Members voted in favour of the Annual Report on Remuneration.

1. Robert Ayling was a member of the Remuneration Committee until he stepped down as Chairman and Non-Executive Director on 8th July 2016; Alastair Lyons became a member of the Committee on 1 May 2016.
2. See page 87 for further details of the LTVPS.

GLAS GROUP REMUNERATION PRINCIPLES

- Remuneration should reward/incentivise the long term interests of the business and reflect its agreed future strategic approach
- Remuneration should align the interests of directors and employees with the business' customers
- Remuneration should be focused on the issues of key concern to the business — water and environmental quality, customer service and financial performance
- Remuneration should reflect Welsh Water'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 in comparison with other companies in the sector. They should be hard numbers which can be audited. While some are annual, they should also align with the business' strategic and regulatory objectives
- Remuneration is intended to incentivise management in the absence of shareholders and share options
- Remuneration should also be fair and competitive both in relation to the sector and internally so as to attract and retain high calibre individuals
- A significant proportion of remuneration for the Executive directors should be variable (a 60/40 split fixed/variable is the stated goal) so as to achieve the right balance in relation to risk taking
- The remuneration structure should be sufficiently clear so that those affected by it understand what it is aiming to achieve
- Remuneration will be transparent to Glas Members and subject to their regular approval

The agreed set of overarching principles which underpin the design and implementation of the Remuneration Policy provide that remuneration should:

1. reward/incentivise the long term interests of the Group and reflect its agreed future strategic approach;
2. align the interests of Directors and employees with the Group's customers; and
3. be focused on the issues of key concern to the Group — water, waste water and environmental quality, customer service and financial performance. Targets set for the Executives have followed those set by Ofwat in the Final Determination for the Price Review for the current AMP period, focusing on customers, compliance and cost. They have also included personal objectives and areas which the company considers need particular focus (e.g. reduction of bad debt).

CHANGES TO THE BUSINESS RELEVANT TO REMUNERATION POLICIES

Following extensive discussion with Glas Members, and the Extraordinary General Meeting and Court Meeting, in March 2016 the Group implemented a corporate restructure. The changes in structure and creation of new subsidiaries were intended to allow the development of a limited number of commercial projects, linked to the water cycle and the development of infrastructure within the UK, outside the restrictions of our Common Terms Agreement with lenders and bondholders. The last year has also seen a significant investment to ensure that those business customers and sites that are eligible to choose their water retail supplier from 1 April 2017 were able to do so in accordance with Market Operator rules, and that we continue to ensure that all of our business customers receive excellent customer service.

All of these points have been considered by the Remuneration Committee in detail from a risk and reward perspective and have featured in objectives set for AVP and the emerging design intended for future AVP and LTVP awards.

PERFORMANCE AND REWARD FOR 2016-17

Remuneration payable to the Executive Directors in respect of the financial year ended 31 March 2017 was as follows:

- a base salary (which had been increased by 1.5% in April 2016) plus pension (or equivalent payments) and private health and permanent health benefits;
- under the AVPS 2016-2017 awards have been made equivalent to 30% of base salary for performance against the Customer and Compliance element of the scheme, 23.6% for Total Expenditure (Totex) Cost Performance and between 20.3% and 21.8% against Strategic (Annual Focus) and Personal Objectives, making a total award of between 73.9% and 75.4% of base salary for each Executive Director; and
- under the LTVPS[2], payments have been made for performance relating to the two elements of the scheme: Customer Service and Customer Value.

  Customer Service: The final outturn for Welsh Water's SIM performance in 2016-17 will not be known until later in the summer. However, we estimate that Welsh Water will be ranked fourth out of the ten water and sewerage companies which will result in an award of 7.5% of salary (25% of the maximum for this element of the LTVPS) being made for the Customer Service element of the award, calculated on a rolling three year average SIM basis;

  Customer Value: a payment of 28% of salary (93.3% of the maximum for this element of the LTVPS) has been awarded under the scheme for the Customer Value element given the financial achievement in the period.

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2017-18

The agreed Remuneration Principles emphasise that remuneration for the Executive Directors and the wider Executive team should align with the interests of the Group, and in particular with the interests of customers. This will continue to govern our approach in 2017-18. The key points in relation to the implementation of the Remuneration Policy in 2017-18 are:

- Salaries were increased by 1.6% with effect from 1 April 2017 in line with the pay award received by other employees;
- under the AVPS the maximum that can be earned in 2017-18 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 short- to medium-term success; and
- the LTVPS provides that the overall maximum that can be earned in the AMP6 five year regulatory period is 300% of base salary (i.e. 60% per annum). Half of the LTVPS is subject to Customer Service measures and half to Customer Value measures.

The Committee is grateful to New Bridge Street (Aon Hewitt) for the professional advice provided throughout the year.

The Directors' Remuneration Report includes:

- a Remuneration Policy Report (pages 85-87). The Group Remuneration Policy received binding Member approval at the 2015 AGM. The Committee remains satisfied that the policy remains appropriate and fit for purpose and intends that it will cover a three year period to the 2018 AGM.
- an Annual Report on Remuneration (pages 88-94) which describes how the Remuneration Policy was implemented for 2016-17 and how we intend to apply it for 2017-18. The Annual Report on Remuneration will be put to an advisory Member vote at the 2017 AGM.

Anna Walker

Anna Walker
Chair of the Remuneration Committee

8 June 2017[3]

3. This Remuneration Report has been prepared in accordance with the provisions of schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and is fully compliant with the provisions of the UK Corporate Governance Code.

POLICY REPORT

Key parts of the Policy Report which was approved by Glas 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 can be found on pages 76 to 78 in the 2015 Report and Accounts on the Company's website: **dwrcymru.com/reports**

REMUNERATION POLICY

The principles and framework of the current Remuneration Policy were approved by Glas Members at the AGM on 3 July 2015 and were effective from that date.

The Policy aligns executive remuneration with the implementation of Welsh Water's strategy to deliver the best possible outcomes for our customers and to protect the environment. Under the policy, remuneration is linked to performance both annually and over the five year regulatory period that commenced in April 2015.

The Policy is implemented to ensure that:

- levels of base salary and total remuneration (when assessed periodically against the market) are considered to be fair and competitive having regard to an individual's experience and responsibility;
- performance is improved by encouraging a significant proportion of total remuneration being paid as variable pay, while balancing this with base salary to ensure that excessive risk-taking is not incentivised;
- incentives are focused on the relative performance of Welsh Water when benchmarked against other companies by Ofwat and other regulators, in order to incentivise sector-leading performance in a transparent and accountable way; and
- the LTVPS is focused on the long term strategic and financial performance of Welsh Water.

The Terms of Reference for the Remuneration Committee provide that it will have oversight of the remuneration arrangements across the business as a whole. The Committee also considers the impact of the policy in light of the broader social, environmental and any governance issues.

The Group negotiates salaries for the wider workforce with three recognised trade unions by means of a single table approach. The Remuneration Committee considers the agreed increase for the wider employee base and also reviews market practice and conditions. The Measures of Success and cost elements which form the basis of the AVPS for Executive Directors and the wider Executive team are also the basis of variable pay arrangements across the organisation. The Committee does not formally consult with employees on Executive pay, but does regularly seek the views of the Director of Human Resources and takes into account views expressed in dialogue with Glas Members.

DISCRETIONS RETAINED BY THE REMUNERATION COMMITTEE

The Committee will operate the AVPS and LTVPS according to their respective scheme policies and in accordance with the Listing Rules where relevant. The Committee retains discretion, consistent with market practice, in relation to the operation and administration of these schemes. These include, but are not limited to, taking into account significant safety or reputational issues, or significant deterioration of performance. The scheme rules allow for clawback of variable pay from directors, whether before or after awards have vested.

OVERSIGHT OF REMUNERATION POLICIES FOR THE WIDER GROUP

As part of its ongoing review of policies, the Committee is considering the structure of remuneration across the Group as a whole, and the appropriateness of targets, while recognising that the detail and implementation of pay policies for the wider workforce is a matter for the Executive team.

Figure 1 summarises the components of the Executive Directors' remuneration packages in accordance with the Group's Remuneration Policy.[4]

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 — taking 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 retains 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 Executives 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 Group and is not predetermined	None
Pension	To help recruit and retain high calibre employees Discrete post-retirement planning provision	The Chief Executive and Chief Operating Officer participated in the DCWW Defined Benefit Pension Scheme during 2016-17 Until 31 March 2017, when contributions exceeded either the lifetime or annual contribution limits, provision was made by way of an unfunded EFRBS. From 1 April, active members transferring to the DCWW Group Personal Pension Plan received a maximum employer contribution of up to 24% of salary with the opportunity to opt out and receive a cash alternative allowance equivalent to the employer contribution. Normal retirement age of 60. For active members of the DCWW Group Personal Pension Plan the maximum employer contribution to the DCWW Group Personal Pension Plan is 11% providing the employee contributes 6% or more. 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.	Effective from 1 April 2017, the Chief Executive receives a cash alternative allowance of 21.1% of salary and the Chief Operating Officer receives a cash alternative allowance of 15.8% of salary. The value is commensurate with previous payments but delivered through an alternative vehicle.	None
AVPS	To incentivise the annual delivery of stretching targets and personal objectives	AVPS targets reviewed annually by the Committee Targets designed to relate to areas of the business over which the Executive has particular control Outturn is 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 reputational damage caused to the Company or Group Company The Committee also retains the discretion to withhold awards in the event of significant issues affecting the safety or the reputation of the 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 six years from the date of payment.		Measures well aligned to the Business Plan themes of Customer, Compliance and Cost with additional annual focus and personal targets (See page 88)

4. In approving this Remuneration Policy, authority was given to the Group to honour any commitments entered into with current or former Directors that have been disclosed in previous Remuneration Reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise as required under the Remuneration Regulations.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
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 The Committee also retains the discretion to withhold rewards in the event of significant issues affecting the safety or the reputation of the 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 six years from the date of payment.	300% of salary over the five year regulatory period to 31 March 2020 (a maximum potential award of 60% per annum).	50% based on relative SIM performance 50% based on financial performance (See page 88)
Non-Executive Directors' Fees	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 are paid for 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 fees for chairing Committees The Senior Independent Director is paid more to reflect the breadth of his/her duties.	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 or LTVPS 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 Group. At the Group'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 Group choose to exercise its option to make a payment in lieu of notice. When an Executive Director leaves via redundancy and is not required to work his/her notice period, he/she will be entitled to Statutory Redundancy plus 12 months' pay in lieu of notice together with pay in lieu of accrued but untaken holidays. Should an Executive Director resign, he/she will be expected to work their notice period unless an alternative arrangement such as garden leave or a reduced notice period is agreed. In the event that the Group terminates the Executive's employment, the Group 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. Any vested amount already paid to the Executive prior to the date of cessation of employment may be retained in full by the Executive.			

ANNUAL REPORT ON REMUNERATION

Remuneration Policy for Executive Directors – implementation of the policy

SALARY

Following a review in March 2017 the Remuneration Committee set the base salaries for the Executive Directors for 2017-2018 (effective 1 April 2017) shown in figure 2. This mirrors the 1.6% increase awarded to employees on 1 April 2017 in accordance with the five year pay deal agreed with the Group's three recognised trade unions (GMB, UNISON and UNITE) in 2015 and those employees not covered by the Working Together Agreement. Details of Executive Directors' base salaries within Welsh Water and the Water Industry generally were taken into account during negotiations.

FIGURE 2: EXECUTIVE DIRECTOR'S BASE SALARIES

	Effective 1 April 2016	Effective 1 April 2017
Chris Jones	£292,585	£297,267
Peter Perry	£236,437	£240,220
Peter Bridgewater	£236,437	£240,220

FEES PAYABLE TO THE CHAIRMAN

The fees payable to the Chairman were reviewed in March 2016 and no change was made at the time, resulting in the Chairman fees being frozen at 2015 levels. A further review took place in March 2017 and the Committee resolved that the Chairman's fee should be increased from £212,000 to £215,400 per annum (1.6% rounded up) with effect from 1 April 2017 in line with the wider employee base.

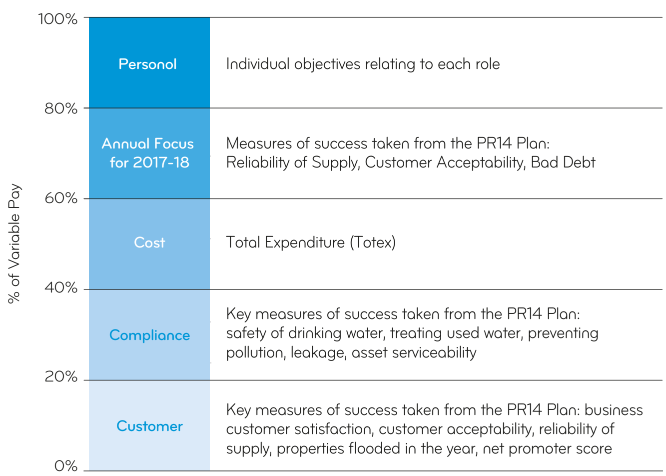
FEES PAYABLE TO NON-EXECUTIVE DIRECTORS

The fees payable to Non-Executive Directors were reviewed in March 2015 and subsequently in July 2016 (with changes backdated to April 2016). No change was made in 2015 resulting in fees being frozen at 2014 levels. In July 2016 the fees were increased by approximately 1.5% with effect from 1 April 2016 to £58,900 for the Non-Executive Directors (from £58,000) and to £69,700 for the Senior Independent Director (from £68,700). A further review took place in March 2017 and the Board resolved that the fees for Non-Executive Directors should be increased from £58,900 to £59,850, with the fee for the Senior Independent Director rising from £69,700, to £70,820 (approximately 1.6% in each case) with effect from 1 April 2017.

ANNUAL VARIABLE PAY SCHEME (AVPS)

The maximum variable pay that Executive Directors can earn under the AVPS in 2017-18 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 2016-17, as illustrated in figure 3. Note that individual weightings per component have changed as illustrated below.

FIGURE 3: ANNUAL VARIABLE PAY SCHEME STRUCTURE 2017-2018



LONG TERM VARIABLE PAY SCHEME (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, awards can be made on the basis of performance against the following two discrete measures:

- a **Customer Value Award**, which combines two financial measures of the increase in Reserves (regulatory capital value less net debt) and Transfers to Customer Reserves (representing amounts available for Customer Distributions) 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 Group. Ultimately, this is the most important financial objective for the Executive Directors. This combined measure remains specific to the Glas Group set targets which are aligned with the five year Plan; and
- a **Customer Service Award**, which is measured by Welsh Water'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, Welsh Water's performance relative to similar companies in the sector. SIM is used for the Customer Service Award and comprises two measures of customer service: 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 a quantitative measure which covers customer complaints and unwanted calls.

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.

The performance targets under each of the LTVPS awards are described more fully in figure 4.

FIGURE 4: LTVPS PERFORMANCE MEASURES

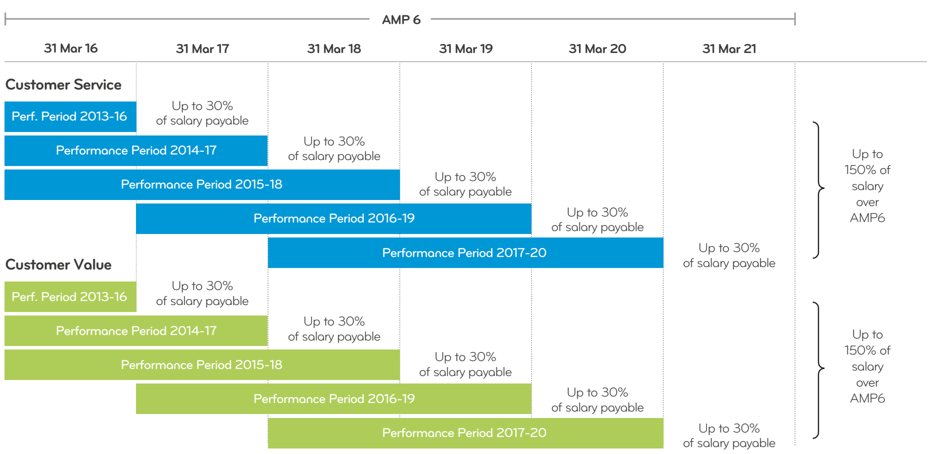
	Customer Service	Customer Value[1]
Performance measures	Measured by reference to Ofwat's SIM measure.	Actual customer value created (increase in reserves and transfers to Customer Reserves) at 31 March 2020 (the end of the AMP6 period) compared to targets.
Rationale for selected measures	Ofwat's SIM measure of customer experience which is independent, objective and measurable, and allows performance to be compared relative to 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 made	1 April 2015 to 31 March 2020 – as shown in Figure 5 below
Performance target[2, 3]	Out of UK's 10 water and sewerage companies: – 100% of award payable for achieving first position – 75% of award payable for achieving second position – 50% of award payable for achieving third position – 25% of award payable for achieving fourth position – 0% of award payable for a ranking of fifth or below.	Maximum 30% award each year if the value created is in line with the targets which are set each year but set 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 next three performance periods, the Customer Value target for the final year of each period is £129 million, £173 million and £189 million.

Footnote to Figure 4

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.

The period over which performance is determined and the potential payment dates over the regulatory period are illustrated in schematic figure 5. Details of payments made under the LTVPS for 2016-17 are set out in figure 6.

FIGURE 5: LTVPS PERFORMANCE PERIOD



WHAT WAS PAID IN 2016-2017 AND LINK BETWEEN PAY AND PERFORMANCE

PAYMENTS MADE TO DIRECTORS IN 2016-2017

Figure 6 sets out the Directors' emoluments in respect of the year ended 31 March 2017 in comparison to year ended 31 March 2016.

FIGURE 6: PAYMENTS AND BENEFITS EARNED BY DIRECTORS IN 2016-2017

	Salary/Fees		Taxable benefits[1]		Other		AVP[2]		LTVPS[3]		Total	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	£	£	£	£	£	£	£	£	£	£	£	£
Chris Jones	288,261	292,585	948	1,068	-	-	202,647	220,609	112,422	114,839	604,278	629,101
Peter Bridgewater	232,943	236,437	948	1,068	12,000	12,000	166,088	174,727	90,848	92,801	502,827	517, 033
Peter Perry	232,943	236,437	948	1,068	-	-	166,088	177,091	90,848	92,801	490,827	507,397
Robert Ayling	212,000	58,048	-	-	-	-	-	-	-	-	212,000	58,048
Alastair Lyons	-	165,778	-	-	-	-	-	-	-	-	-	165,778
Stephen Palmer	58,000	58,900	-	-	-	-	-	-	-	-	58,000	58,900
James Strachan	15,130	-	-	-	-	-	-	-	-	-	15,130	-
Menna Richards	68,700	69,700	-	-	-	-	-	-	-	-	68,700	69,700
Anna Walker	58,000	58,900	-	-	-	-	-	-	-	-	58,000	58,900
John Warren	58,000	58,900	-	-	-	-	-	-	-	-	58,000	58,900
Graham Edwards	58,000	58,900	-	-	-	-	-	-	-	-	58,000	58,900
Joanne Kenrick	24,167	58,900	-	-	-	-	-	-	-	-	24,167	58,900
Total	1,306,144	1,353,485	2,844	3,204	12,000	12,000	534,823	572,427	294,117	300,441	2,149,928	2,241,557

	Pension[4]	
	2015/16	2016/17
	£	£
Chris Jones	142,152	144,199
Peter Bridgewater	25,624	26,008
Peter Perry	64,514	129,585
Total	232,290	299,792

	Total[5]	
	2015/16	2016/17
	£	£
Chris Jones	746,430	773,300
Peter Bridgewater	528,451	543,041
Peter Perry	555,341	636,982
Non Exec Directors	551,997	588,026
Total	2,382,218	2,541,349

Notes to table

Changes of Director: Alastair Lyons was appointed to the Board on 1 May 2016 and appointed to the position of Chairman on 8 July 2016. Robert Ayling stood down from the Board on 8 July 2016. James Strachan stood down from the Board on 3 July 2015. The figures above are prorated for the period in office.

1. Taxable benefits relate to private health cover
2. Please see determination of AVPS outcome on page 91. Performance against AVPS targets in 2016-17 resulted in a higher payment than in 2015-16.
3. Please see determination of LTVPS outcome on page 91. Estimated payment for 2015/16 was 46.5% of base salary. Actual payment was 39% of base salary.
4. Pension contribution for Peter Bridgewater is a cash alternative allowance. For 2016-17 the pension input amount for Chris Jones and Peter Perry was calculated as the value of the increase in Defined Benefit pension benefits above inflation. Please see Figure 8 for full calculation.
5. The highest paid Director in 2016-17 was Chris Jones who received £762,329 (£768,049 in 2015-16)

DETERMINATION OF 2016-17 AVPS OUTCOME

For 2016-17, the Remuneration Committee measured performance against each target, linked directly to the achievement of the Company's strategy, as follows in the table below. Performance in 2016-17 resulted in an AVPS award of between 73.9% and 75.4% compared with an award of between 70.3% and 71.3% for the Executive Directors in 2015-16.

FIGURE 7: AVPS 2016-2017 OUTCOME (AUDITED)

Measure	Weighting	Summary of targets (% of salary	Result	% of maximum
Customer & compliance	20%	Threshold 5% Target 12.5% Stretch 20%	12.9%	64.5%
Compliance	20%	Threshold 8% Target 14% Stretch 20%	17.1%	85.5%
Cost	30%	Threshold 6% Target 18% Stretch 30%	23.6%	78.7%
Annual focus measures	20%	Threshold 4% Target 12% Stretch 20%	12.8%	64.0%
Personal	10%		7.5 - 9%	75.0 - 90.0%
Total	100%		73.9-75.4%	73.9-75.4%

Notes to table

Personal Objectives: The personal objectives (worth up to 10% of base salary) of the Executive Directors were aligned to the delivery of Welsh Water's key strategic objectives and the delivery of the business plan for 2017.

- Chris Jones' primary personal objective was to achieve material implementation of the Customer-led strategy. In assessing the fulfilment of this objective the Committee took particular account of measures such as the extent of development of a customer-centric culture and comparisons with Customer-led strategies in other customer facing businesses, as well as a subjective assessment of customer opinion. The Committee assessed that Chris Jones had substantially achieved his primary personal objective and the payout awarded was 9% of salary.
- Peter Bridgewater's primary personal objective was to achieve material implementation of a commercial strategy for Glas Cymru. In assessing the fulfilment of this objective the Committee took particular account of matters such as the achievement of development of the commercial strategy defining areas of focus and an implementation plan, securing a Water Supply and Sewerage Licence for England by December 2016 and new teams put in place in preparation for market opening in April 2017. The Committee assessed that Peter had made material progress in achieving his primary personal objective and the payout awarded was 7.5% of salary.
- Peter Perry's primary personal objectives were to achieve effective transition to a new IT main contractor in order to deliver opex savings and to develop and implement wholesale "readiness plan" for April 2017 market opening. In assessing the fulfilment of these objectives the Committee took particular account of the achievement of the effective transition of the IT main contractor with no service disruptions with delivery of £700,000 in opex savings resulting, the development of the Wholesale Service Centre, and the putting in place of clear process routes to meet market opening in April 2017. The Committee assessed that Peter had largely achieved his primary personal objectives and the payout awarded was 8.5% of salary.

DETERMINATION OF 2016-17 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 2017 will not be known until later in the year. At this time, it is estimated to be ranked joint 3rd, in which case the award would be 11.25% of salary (37.5% of maximum for this element). The actual award will be determined later in the year when full comparative information is published by Ofwat. The maximum potential is 30% of salary.

For the Customer Value element of the scheme measured from 1 April 2016 to 31 March 2017, a payment of 28% of salary (93.3% of maximum for this element) 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 2017 was £141 million against a target of £133 million (and a stretch of £143 million). The reported total value created is £200 million which, for the purposes of assessing LTVPS performance, has been adjusted downwards by £59 million to reflect higher than expected inflation during the year.

PENSION BENEFITS

For the period 1 April 2016 to 31 March 2017 Chris Jones and Peter Perry were active members of the DCWW Pension Scheme (the 'Scheme') which is a defined benefit pension arrangement.

Benefits accrued 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.

Following consultation with the recognised Trade Unions in 2014-2015, a decision was made to remove the right to an unreduced pension upon redundancy or selective voluntary severance with effect from 1 April 2015; remove the right to draw a DCWW pension whilst remaining employed; and to close the DCWW Pension Scheme to accrual of benefits with effect from 31 March 2017.

As compensation, it was agreed that enhanced employer contributions to the Group Personal Pension Plan (GPPP) would be made for those affected by the scheme closure until 31 March 2020. Benefit accrual in the unfunded EFRBS also ceased from 31 March 2017.

In April 2016 a cash alternative plan was introduced for senior managers.

The Chief Executive and Chief Operating Officer opted to receive a cash alternative allowance with effect from 1 April 2017. The Chief Executive was in a special member benefit category of the EFRBS (building up a pension at a rate of 1/45 of pensionable salary each year compared to the 1/60 of pensionable salary accrued by the wider DCWW Pension Scheme membership). It was, therefore, agreed by the committee the respective proportionate enhancements would be provided to the Chief Executive and the Chief Operating Officer until 31 March 2020.

Effective from 1 April 2017, the Chief Executive receives a cash alternative allowance of 21.1% of salary and the Chief Operating Officer receives a cash alternative allowance of 15.8% of salary. The enhanced payments will only be paid until 31 March 2020, and thereafter, cash alternative payments will be payable at a reduced level.

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 to receive a cash alternative allowance of 11% of salary.

OTHER BENEFITS

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

FIGURE 8: PENSION BENEFITS

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 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	£2,696,056	£20,965	£64,514

Year ending 31 March 2017

	Normal Retirement Age	Accrued pension at 31 March 2016	Capitalised value of accrued pension at 31 March 2016	Revalued capitalised value of accrued pension at 31 March 2016[1]	Accrued pension at 31 March 2017	Capitalised value of accrued pension at 31 March 2017	Member contributions paid during the year 2017	Pension Input Amount (net of member contributions 2017)[2]
Chris Jones	60	£134,978	£2,699,562	£2,699,562	£143,505	£2,870,094	£26,333	£144,199
Peter Perry	60	£134,803	£2,696,056	£2,696,056	£142,346	£2,848,920	£21,279	£129,585

Benefit notes:

1. Increased by the actual CPI growth figure at the previous September - 1.2% for the 2016 disclosure period and 0.0% for 2017.
2. Based on the capitalised value of accrued pension at the year-end, less the revalued capitalised value of accrued pension at the start of the year.
   - The accrued pensions include previous Pensionable Service completed in Hyder Water and United Utilities Pension Schemes.
   - The accrued pension figures include both the standard entitlements within the Scheme (which are restricted in accordance with HMRC limits) and the top-up benefits which are payable under the EFRBS.

COMPARISON OF OVERALL PAY AND PERFORMANCE

Figures 9 and 10 show how our pay awards have 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 2017

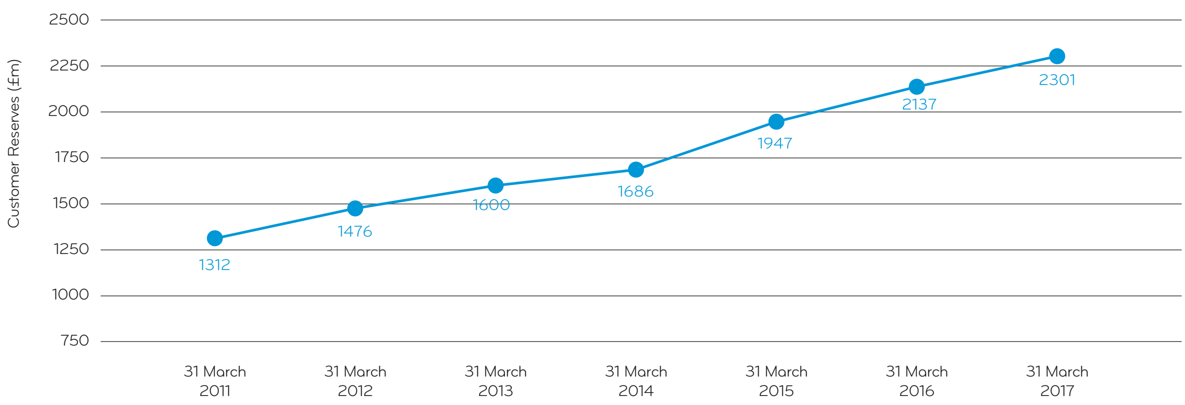


FIGURE 10: OVERALL PAY AND PERFORMANCE

	2011	2012	2013	2014	2015	2016	2017
Total remuneration for Chief Executive (Chris Jones)	-	-	-	£741,569	£973,688	746,430	773,300
Total remuneration for Managing Director (Nigel Annett)	£665,965	£677,770	£590,210	£709,890	-	-	-
AVPS award (Chris Jones)	-	-	-	51.1%	79.4%	70.3%	75.4%
AVPS award (Nigel Annett)	76.3%	77.6%	60.6%	49.9%	-	-	-
LTVPS for AMP6	-	-	-	-	-	39%	39.25%
LTVPS for AMP5	25.0%	40.0%	50.0%	78.6%	90.6%	-	-

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.
LTVPS for AMP5 shows as a percentage of maximum rather than a percentage of salary awarded.

RELATIVE IMPORTANCE OF SPEND ON PAY

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 2017 compared to 2016.

FIGURE 11: RELATIVE IMPORTANCE OF SPEND ON PAY

	2016	2017	Change	
	£m	£m	£m	%
Total expenditure[1]	754.8	868.5	113.7	15%
Employee remuneration costs	127.2	134.4	7.2	6%
Customer Reserves[2]	2,137	2301	164	8%
Executive Director remuneration costs	1.83	1.95	0.12	6.7%

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 SALARY COMPARED WITH OTHER EMPLOYEES

	Chief Executive % change from 2015-16	Employees % change from 2015-16
Salary	1.5%	1.5%

DETAILS OF DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Dates of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2017 are as follows:

Chris Jones	11 May 2001
Peter Perry	1 August 2006
Peter Bridgewater	1 September 2014
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
Alastair Lyons	1 May 2016

Copies of the service contracts are available from the Company Secretary. For more information on the roles and responsibilities of the Board of Directors, please see page 71.

The Board considers that all the members of the Remuneration Committee are independent and, in the case of Alastair Lyons, 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 five occasions in 2016-17.

In 2016-17, 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 Committee is satisfied that the advice it receives remains independent and objective. The fees paid to NBS for work carried out in 2016-17 was £55,343. The Committee is in the process of undertaking a procurement process to (re)appoint a firm of remuneration consultants for a further period of up to five years.

12

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 3. The names and brief biographical details of the Directors as at 31 March 2017 are given on pages 67 to 69 of this document. Alastair Lyons joined as a director on 1 May 2016. Other Directors served throughout the year ended 31 March 2017.

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 2017 AGM which will take place on Friday 7 July 2017.

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 2017 contained in this Annual Report. A resolution will be proposed at the AGM to approve the Remuneration Report 2017. 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 2017, the Group had 3,178 employees. Our success is dependent upon our having highly committed and motivated people. We are committed to developing our people to meet 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 disability. 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, supply chain and customers and monitors progress in this regard.

PERSONS OF SIGNIFICANT CONTROL

We maintain a Register of People with Significant Control to comply with the 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.

PETE PERRY & ALASTAIR LYONS VISIT COG MOORS

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. 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 are implementing these new provisions in all new agreements, upon renewal of key agreements and upon issue of purchase orders. We have written to our existing suppliers to remind them of the requirements of the Act and our policy in this area. To date we have not found any evidence of slavery or human trafficking in our supply chain. Our Human Resources team maintains recruitment polices to protect against slavery and human trafficking in our own operations. Further details and our anti-slavery statement can be found on the following link: **dwrcymru.com/Company-Statements**.

DIRECTORS STATEMENT

The Directors consider that the Annual Report and Accounts, the 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 Group's performance, business model and strategy. In order to arrive at this position, the Board was assisted in the following ways:

- the Annual Report was drafted by senior management and overall co-ordination overseen by the General Counsel and Company Secretary to ensure consistency
- reviews of drafts were undertaken by members of the Executive team and a verification process involving the Group'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 Group's business in the year ended 31 March 2017 and covers likely future developments. Glas Cymru Holdings Cyfyngedig (Company number 09917809) is a company limited by guarantee, incorporated in England and Wales. Our registered office is Pentwyn Road, Nelson, CF46 6LY.

This Annual Report and Accounts document consolidates the activity and results of Glas Cymru Holdings Cyfyngedig ('Glas Cymru') and its subsidiaries. More information on Principal Activities can be found on page 14.

FINANCIAL PERFORMANCE

The Group has delivered a strong financial performance during the year to 31 March 2017: it has continued to deleverage, with gearing falling from 57% to 56%, and has retained and improved its sector-leading credit ratings.

OPERATIONAL ITEMS

Glas Cymru incurred total operational costs (excluding infrastructure renewals expenditure on maintaining our underground pipe network, depreciation and exceptional items) of £313 million (2016: £297 million). A number of specific cost increases (higher maintenance contract rates, energy prices and ICT contract transition costs) have been partially offset by efficiency savings, increased 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 2016-17 were £41 million (2016: £43 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 three 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 further collections improvements during the year, and as a consequence the bad debt charge for the year has fallen to £23 million (2016: £27 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 securing charging orders over property owned by customers, with some 2,500 orders secured over nearly £6 million of our customers' debt.

REVENUE

Glas Cymru's turnover in the year to 31 March 2017 remained stable at £744 million (2016: £743 million); a modest increase of 1.4% reflecting Ofwat's PR14 Final Determination pricing adjustment was offset by reduced revenues due to customers opting to move to a metered supply and a higher number of customers benefiting from affordability tariffs.

EXCEPTIONAL ITEMS

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

FINANCING COSTS

Net interest payable of £141 million (excluding accounting losses on derivatives noted below) was £17 million higher than the previous year. Glas Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt which were entered into when the company was highly geared. While these are effective commercial hedges, they do not qualify for hedge accounting under IAS 39. Changes in market values create volatility in the income statement and fair value losses in 2016-17 amounted to £63 million (2016: gains of £39 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.

LOSS BEFORE TAX

The consolidated income statement shows a loss before taxation of £99 million (2016: profit of £77 million) which takes into account the fair value movements and prior year exceptional item as discussed above. Operational and financing costs have risen by some £32 million, as explained above, and infrastructure renewals expenditure has increased by £12 million in line with our higher level of capital investment in a year two of the five year investment programme. In addition, depreciation is £10 million higher than the prior year principally due to the revaluation of fixed assets.

The underlying loss before taxation (excluding fair value movements and exceptional items) was £36 million (2016: profit of £18 million).

TAXATION

The group continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we pay to fund it have the effect of delaying corporation tax payments to future periods. A tax credit of £1m has been generated from the surrender of tax losses relating to our investment in energy efficient capital expenditure under a government-approved scheme.

The total tax credit in the income statement was £28.9m (2016: £8.9m). This includes a deferred tax credit of £12.4m (2016: £24.1m credit) as a result of the corporation tax rate falling from 17% to 18% from 1 April 2020. If this credit is excluded from the total tax credit, the effective tax rate for the period would be 16.7% (2016: 19.7%) which is slightly lower than the standard rate of corporation tax for the period (20%). A reconciliation is provided at note 6. The Government has not announced any further reductions to corporation tax rates and therefore no further credits arising from rate changes are expected in future periods.

CHRIS JONES VISITING GARREGLWYD

OUR GROUP TAX STRATEGY

OUR APPROACH TO RISK MANAGEMENT AND GOVERNANCE ARRANGEMENTS

Our Finance and Commercial Director has overall responsibility for tax governance and strategy with oversight from the Board and the Audit Committee.

Our tax strategy is supported by a detailed internal Group Tax Policy, together with a framework of internal systems and controls which govern the commercial operations of Glas Cymru Holdings and its subsidiaries (the Group). Our Head of Tax is responsible for the day-to-day application of the tax strategy and the management of the Group's tax affairs. Our Head of Tax works closely with the Finance and Commercial Director. All material tax issues, risks and developments are regularly communicated to the Audit Committee.

Our tax team comprises a small group of professionals with extensive experience of tax in the water sector. This expertise is supplemented by the use of reputable external advisers where required.

OUR APPROACH TO TAX PLANNING AND TAX RISK

All of our group companies are UK tax resident and subject to UK corporation tax on their profits.

Our focus is on compliance; ensuring that all taxes are correctly calculated, accurately reported and paid when due.

We do not engage in artificial arrangements with no commercial purpose, or transactions which are directed at exploiting tax legislation in order to reduce the tax we pay. We comply with the spirit of the law as well as the letter of the law.

Tax risks are held within the Group's risk register and are updated regularly.

Our key tax risks principally arise from business developments and changes to tax legislation which may result in unforeseen tax implications. Where possible we seek to mitigate tax risk so that residual risk is minimal.

Our tax team is involved in all significant business developments enabling a full assessment of the tax implications to be made. We seek input from reputable external advisers where the tax implications are still unclear. In cases where residual uncertainty remains we liaise with HMRC to gain clarity.

Our tax team participates in a number of water industry tax forums. The team receives regular technical updates from our professional advisers and from our periodic meetings with HMRC. This ensures that the team is kept informed of all relevant developments in tax law, enabling them to develop appropriate systems and controls to address legislative changes.

We actively contribute to the UK tax policy making process by participating in Government consultations.

OUR RELATIONSHIP WITH HMRC

We are committed to an open, transparent relationship with HMRC. Our policy is to fully disclose any issues or errors as they arise, and seek to resolve them as soon as practicable.

We meet HMRC biannually to formally discuss our business plans and developments, together with relevant changes to tax legislation.

The Group has been classified as low risk by HMRC from the inception of the Business Risk Review process in 2009. This is due for review in March 2019.

TAX RELIEFS AND INCENTIVES

Our Group has no shareholders and is run solely for the benefit of our customers. We therefore seek to utilise available tax reliefs and incentives put in place by the Government in order to maximise funds available to benefit our customers.

The Group invests heavily in capital expenditure, for example treatment works and our network of pipes and pumping stations, to continually improve the service we provide to our customers. We are therefore able to take advantage of tax reliefs which aim to stimulate this type of investment. A significant proportion of this capital expenditure can be deducted in calculating the Group's taxable profit. We are also able to deduct interest costs incurred to fund this capital investment. This effectively delays corporation tax payments to future periods. Our customers therefore also benefit from cheaper bills.

The Government's Research & Development (R&D) Expenditure Credit regime incentivises companies to increase their investment in R&D. The Group invests heavily in R&D and claims tax credits under this regime.

TRANSPARENCY

We understand the value of insightful financial reporting to our customers, investors and other stakeholders. Taxation is an area which can be difficult to understand. We therefore seek to give a clear and balanced view of our tax affairs. See pages 129-130.

CONTRIBUTION

The Group is subject to a range of taxes and duties, including corporation tax, business rates, environmental taxes, employment taxes, National Insurance, VAT, fuel duty and licences. The Group thus makes a significant contribution to public finances, as well as employing over 3,000 people and playing an important role in the regional economy.

PENSION FUNDING

The statement of comprehensive income reports defined benefit pension scheme actuarial losses of £43 million (2016: £25 million) and the balance sheet liability as at 31 March 2017 was £95 million (2016: £57 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 2016, projected a deficit, recoverable by payments of £7 million per annum until 2019 and then £3 million per annum until 2030. Exposure to any significant additional future liabilities is mitigated by the closure of most sections of the scheme with effect from 1 April 2017.

FINANCIAL PERFORMANCE

The consolidated balance sheet shows net assets of £1,116 million at 31 March 2017 (2016: £1,082 million). Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £1,593 million (2016: assets of £1,417 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 2017 have been prepared on the going concern basis.

CAPITAL INVESTMENT

Glas Cymru's strong financial position has been built up over the last 16 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 net capital expenditure during the year (including infrastructure renewals expenditure) was £350 million (2016: £262 million). The increase is mainly due to a temporary slowdown in our capital construction programme during 2015-16 at the start of the current five year regulatory period (AMP6). We invested around £1.5 billion over the five year period from 2010 to 2015 in our AMP5 investment programme which brought sustained improvements in customer service, drinking water quality and the environment. The Group plans to invest at least a further £1.7 billion over the course of the current five year regulatory period (2015-2020), our largest ever investment programme.

CREDIT RATING AND INTEREST RATE MANAGEMENT

Glas Cymru has the strongest credit ratings in the water sector, reflecting the Group's high level of creditworthiness. The ratings of the Group's Class A and B debt at 31 March 2017 were A/A2/A from Standard & Poor's (S&P), Moody's and Fitch Ratings respectively.

As at 31 March 2017, approximately 65% of gross debt was index-linked via bonds and derivatives (2016: 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 Group 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 56% by 31 March 2017 (2016: 57%) and 'customer reserves' (RCV less net debt) were £2.3 billion. As at 31 March 2017, the Group had available total liquidity of £555 million, including cash balances of £95 million. We are substantially pre-funded through to 2019-20 and have a further £150 million of undrawn revolving credit facilities.

EVENTS AFTER THE FINANCIAL YEAR END

There have been no post balance sheet events.

OCCUPATIONAL HEALTH AND SAFETY

We are committed to high standards of occupational health and safety and over the period 2016-17 our like-for like performance improved with fewer RIDDOR accidents. More information on our health and safety strategy and performance is provided in our 2017 Occupational Health and Safety Report which is available on **dwrcymru.com**

INNOVATION

Our innovation portfolio continues to grow with 162 projects assessed through our iLab process, and 55 completed since April 2015. We have also won five innovation awards this year, after working with 72 partner organisations investing some £7.2m on behalf of our customers. This work is driving efficiencies, reducing our environmental footprint, and improving health and safety in particular. As well as investing in driving innovative change, we continue to work closely with our Independent Environmental Advisory Panel (made up of regulators, academics and environmental stakeholders) who advise the business on the science and research we undertake. The Panel assists 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 agenda through our strategic relationship with the Natural Environmental Research Council (NERC) and by participation in water industry research initiatives, most notably through membership of the UK Water Industry Research partnership (UKWIR) which manages and coordinates the research interests of UK water companies.

POLITICAL DONATIONS

It is Board policy not to make donations to political parties or to incur political expenditure. During 2016-17 a payment of £18,270 was made to the StepChange debt charity, to support the work the charity does in providing debt advice to our customers. We are disclosing this payment as StepChange also lobbies government for policy change on debt issues. Other than this, 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 82% of the total. In 2016-17 our operational carbon emissions fell 8% to 212 ktCO2e from 230 ktCO2e* in 2015-16.

There were several components to this change, the key one being a reduction in the carbon content of grid supplied electricity which fell 11% as coal power stations continue to come offline. Other factors were that although consumption of electricity fell 3.5% to 451 (2015: 467), we generated less of this electricity ourselves due to a 26% fall in the volume of green energy generated by our hydro-turbines (to 37 GWh from 49 GWh in 2015) as we experienced one of the driest winters on record. There were also small rises in our emissions from an increase in the volume of sludge processed and increased transport use.

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. We are working closely with the Welsh Language Commissioner's office to prepare for the implementation of the provisions of the Welsh Language (Wales) 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.

SEWER UPGRADE SKETTY

INSPIRING CURIOUS MINDS AT CILFYNYDD DISCOVERY CENTRE

OUR WIDER IMPACT

We publish an Impact Report on our website, which summarises the impact that we have on the world around us, from a customer, community and colleague perspective. It provides a review of our activity over the past 12 months, showcasing what we are doing to help realise our vision to earn the trust of our customers. Some of the areas where we have a wider impact are detailed below:

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 41,000 pupils a year benefit from this programme.

WATERAID

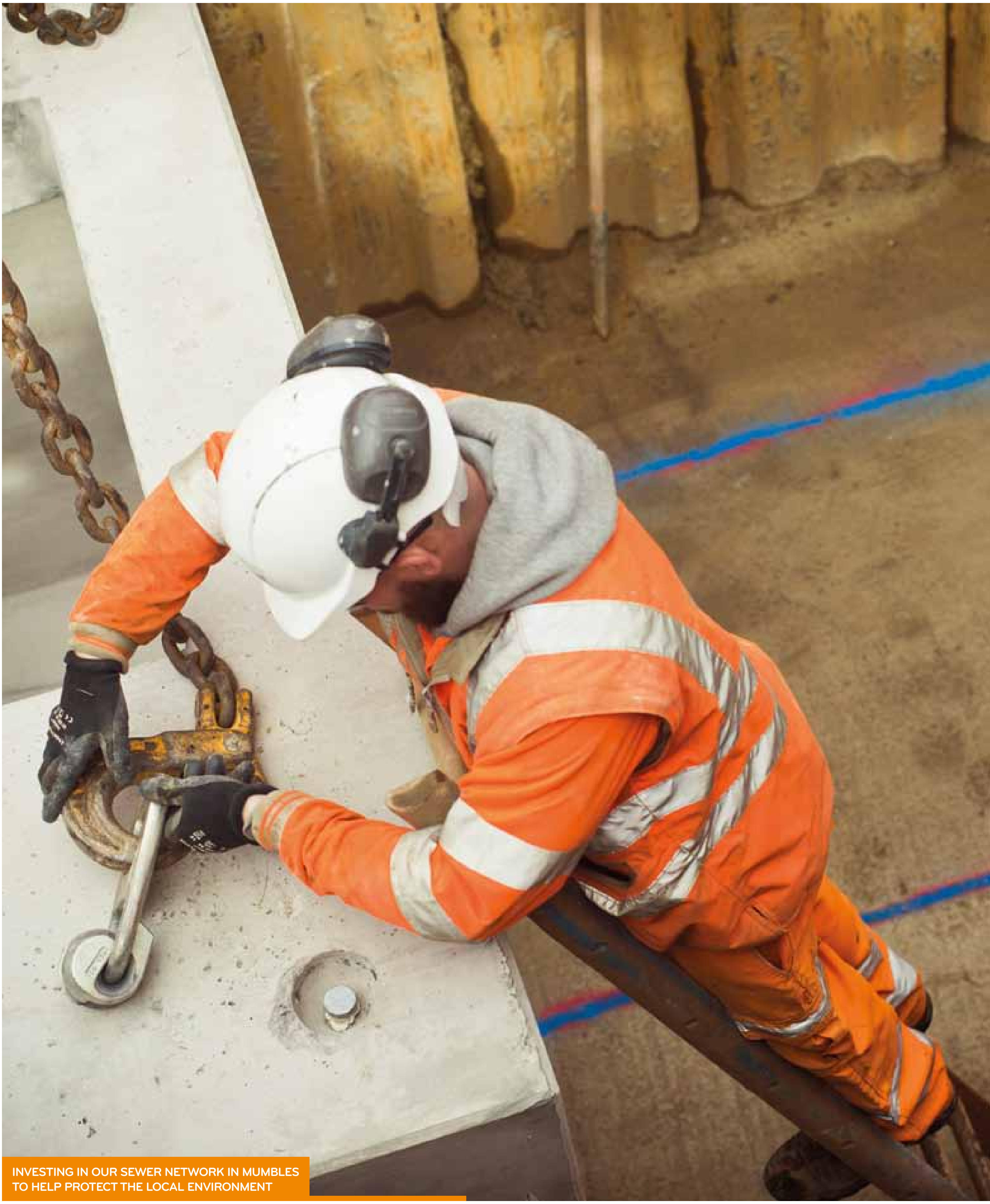
As befits our operating model, we do not engage in corporate sponsorship but we continue to provide support to WaterAid.

BEING A GOOD NEIGHBOUR

We know that our activities, including maintaining and repairing our assets and networks, can cause disturbance 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 least intrusive solution. Where our activities can potentially have a negative economic impact (for example roadworks 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 large workforce and a major, multibillion pound investment programme, the way we act has a profound influence on the social, economic and environmental well-being of Wales and the English regions we serve. We are therefore pleased that acting in an environmentally sustainable, economically beneficial and socially responsible manner remains at the heart of our activities.



INVESTING IN OUR SEWER NETWORK IN MUMBLES TO HELP PROTECT THE LOCAL ENVIRONMENT

ACCESS AND RECREATION

We are the custodian of a national asset in Wales – some 40,000 hectares (99,000 acres) of 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.

Under the Environment (Wales) Act 2016 we will be obliged to report on compliance with our duty to strengthen biodiversity and ecosystem resilience by December 2019 and every three years thereafter. We have recently published our plan to fulfil that duty and play our part in enhancing the environment.

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 involved the following:

- **WaterSource** – this involves a collaborative to managing drinking water catchments, working in partnership with the Brecon Beacons National Park and other key stakeholders to help control water water quality
- **PestSmart** sees us working in partnership with Natural Resources Wales and the agricultural community to consider smarter and more environmentally friendly methods of weed, pest and disease control. This includes providing advice and practical solutions, as well as offering a free pesticide disposal service. Improving raw water quality will help to protect the environment, and reduces the need to use chemicals and energy in the final treatment process.

ANNUAL GENERAL MEETING

The 2017 AGM will be held on Friday 7 July 2017 at The Quay Hotel, Deganwy. The business of the AGM includes:

- receiving the Directors' Report;
- receiving the Financial Statements for the year ended 31 March 2017 and the approval of the Remuneration Report for the year ended 31 March 2017 and approval of the Remuneration Policy;
- the re-election of all Directors;
- a resolution to authorise the Group 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 2017 AGM sent to the Members of Glas Cymru.

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 Welsh Water 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 Group's position and performance, business model and strategy.

By order of the Board

N Williams.

Nicola Williams
General Counsel and Company Secretary

8 June 2017

AUDITORS

KPMG act as auditors to Glas Cymru for the accounts for the year ended 31 March 2017. 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 Group's auditors are aware of that information. 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 Group'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.

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.

DIRECTORS TAKE A TOUR OF COG MOORS

FINANCE

FINANCIAL REVIEW AND RESULTS

Independent Auditor's report to the Directors of Glas Cymru Holdings Cyfyngedig

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 Holdings Cyfyngedig for the year ended 31 March 2017 set out on pages 116 to 148. 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 2017 and of the group's loss for the year then ended;
- the group 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 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.

Overview		
Materiality: group financial statements as a whole	£10m (2016: £10m) 0.17% (2016: 0.18%) of total assets	
Coverage	100% (2016: 100%) of group loss (2016: profit) before tax	
Risks of material misstatement vs 2016		
Recurring risks	Measured income accrual	◀▶
	Fixed assets	◀▶
	Provision for trade receivables	◀▶
	Group pension obligation	◀▶
	Derivative financial instruments	◀▶

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, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
Measured income accrual (£68.8 million; 2016: £65.0 million) Refer to page 78 (Audit Committee Report), page 125 (accounting policy) and page 135 (financial disclosures).	**Subjective estimate** Revenue recognition is one of the key judgemental areas for the financial statements, particularly in relation to the estimate of the income value of water supplied to metered customers between the last meter reading and the end of the financial year. The calculation of unbilled metered income includes estimation of volume of water used in the period, based on the number of customers on meters, the price per unit of water, and where appropriate, changes in external factors such as weather, which could be inaccurately stated.	**Our procedures included:** **Control design:** we evaluated and tested the key processes and controls in place over the metered income accrual. We performed IT controls testing over the Rapid Xtra system used in the calculation of the accrual. This included testing processes and controls over the key drivers such as customer numbers, prices changes and estimation of volume; **Analytical review:** a substantive analytical review was performed over the measured income including the related accrual. An expectation was formed, taking into account key drivers of the balance, including customer numbers, price changes based on the group's published scheme of charges and if appropriate any external factors such as weather, and compared with actual measured income recognised; and **Assessing transparency:** we also assessed the adequacy of the group's disclosures in respect of the degree of estimation involved in arriving at the income accrual.

	The risk	Our response
Fixed assets Additions: (£308.5 million; 2016: £245.8 million) Refer to page 78 (Audit Committee Report), page 122 (accounting policy) and page 132 (financial disclosures).	**Classification of costs between operating expenditure and capital expenditure** The group incurs a high level of expenditure on PPE ("property, plant and equipment"), 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 and therefore are included in the carrying value of , or alternatively should be expensed immediately. Due to the risk that such costs could be inappropriately capitalised, based on the judgements made by directors or the third party engaged by the company in respect of infrastructure and non-infrastructure expenditure respectively, this is one of the key focus areas in our audit.	**Our procedures included:** **Capitalisation policy:** we assessed the group's capitalisation policy against the requirements of the accounting standards; **Control design:** We tested controls over the capital projects throughout the financial year to check that the controls operated as described with regards to the classification of expenditure as either capital or operating being in line with policy and subject to review and authorisation from the appropriate level within the business hierarchy; **Sector experience:** we challenged the judgements made by both the group (non-infrastructure expenditure) and the independent third party engaged by the company (infrastructure expenditure) over the level of capitalisation based on the company's accounting policies, knowledge of the sector and underlying nature of the projects; and **Expert:** the third party expert was assessed as competent and independent to perform this role.
Provision for trade receivables Trade receivables: (£556.6 million; 2016: £537.0 million) Provision for impairment of receivables: (£95.8 million; 2016: £85.3 million) Refer to page 78 (Audit Committee Report), page 122 (accounting policy) and page 135 (financial disclosures).	**Subjective estimate** The provision for doubtful debts is a significant risk area due in part to the statutory requirement to provide water to customers who may be unable to pay. In addition 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 forecasting future collection rates using past experience of historical cash collections, and any other external impacting factors such as changes in customer behaviour, to estimate the proportion of the year end receivables that the group expects to receive.	**Our procedures included:** **Methodology:** assessed whether the calculation incorporated the appropriate information, risks and data including historical cash collections and write offs, to accurately calculate the level of irrecoverable debt, based on our knowledge of the group and the industry; **Sector experience:** challenged the directors' assumptions over the cash collection profiles based on our knowledge of the market, historical trends, operational performance, historic write offs, economic trends and pricing levels; **Sensitivity Analysis:** performed sensitivity analysis on the assumptions made, in particular future cash collection rates, and compared the impact on the level of the provision; **Benchmarking assumptions:** we assessed the directors' assumptions by comparing the level of provisioning across the industry using KPMG's bad debt benchmarking exercise; and **Assessing transparency:** assessed the adequacy of the company's disclosures about the degree of estimation uncertainty involved in calculating the provision.
Group pension obligation Present value of obligation: (£497.3 million; 2016: £413.1million) Net defined benefit liability: (£92.4 million; 2016: £54.5 million) Refer to page 78 (Audit Committee Report), page 123 (accounting policy) and page 145 (financial disclosures).	**Subjective valuation** Small changes in the assumptions and estimates used to value the group's pension obligation such as discount rates, retail price index, mortality rates (before deducting scheme assets) would have a significant effect on the group's net pension deficit.	**Our procedures included:** **Benchmarking assumptions:** with the support of our own actuarial specialists, we challenged the key assumptions applied, being the discount rate, retail price index, mortality rates and expected return on equities; **Test of detail:** we checked that the data such as employer contributions provided to the actuaries agreed to the data provided to the audit team; and . **Assessing transparency:** we have also considered the adequacy of the company's disclosures in respect of the sensitivity of the deficit to changes in key assumptions.
Derivative financial instruments (£477.0 million; 2016: £414.0m) Refer to page 78 (Audit Committee Report), page 123 (accounting policy) and page 138 (financial disclosures).	**Subjective valuation** The group has significant derivative financial instruments including index linked swaps, interest rate swaps and power hedging swaps with movements in fair value taken to the income statement. The valuation 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, and as the fair value of these instruments is highly sensitive to small changes in underlying assumptions or changes in valuation methodologies, this is considered a key audit risk.	**Our procedures included:** **Control design:** Assessment of controls over the monitoring and measurement of derivative financial instruments using third party valuations; **Assessment of methodologies:** assessed the methodologies and assumptions used by the group in determining fair values with the support of KPMG treasury specialists; **Test of detail:** we checked that the data such as employer contributions provided to the actuaries agreed to the data provided to the audit team; and **Assessing transparency:** we have also considered the adequacy of the company's disclosures in respect of the sensitivity of the deficit to changes in key assumptions.

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

Materiality for the group financial statements as a whole was set at £10.0 million (2016: £10.0 million) determined with reference to a benchmark of the group's gross assets (of which it represents 0.17% (2016: 0.18%)).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £500,000 (2016: £500,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above, covered 100% of total Group revenue, Group loss before taxation, and total Group assets and was performed at the company's head office in Nelson, Treharris and St. Mellons, Cardiff.

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 is consistent with the financial statements

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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 2022; 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 as if the company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. 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 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 108), 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
Senior Statutory Auditor

for and on behalf of KPMG LLP
Statutory Auditor Chartered Accountants

3 Assembly Square, Britannia Quay,
Cardiff CF10 4AX
8 June 2017

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

Continuing activities	Note	2017 £m	2016 £m
Revenue		**743.6**	743.2
Operating costs:			
Operational expenditure	3	**(312.6)**	(297.3)
Exceptional items	4	**-**	20.0
Infrastructure renewals expenditure		**(69.7)**	(58.0)
Depreciation and amortisation	3	**(256.6)**	(247.1)
		(638.9)	(582.4)
Operating profit		**104.7**	160.8
Financing costs:			
Finance costs payable and similar charges	5a	**(144.2)**	(128.7)
Finance income receivable		**3.6**	5.6
Fair value (losses)/gains on derivative financial instruments	5b	**(63.0)**	39.3
		(203.6)	(83.8)
(Loss)/profit before taxation		**(98.9)**	77.0
Taxation	6	**28.9**	8.9
(Loss)/profit for the year		**(70.0)**	85.9

Underlying (loss)/profit for the year	2017 £m	2016 £m
(Loss)/profit before taxation per Income Statement	**(98.9)**	77.0
Adjustment for:		
Fair value losses/(gains) on derivative financial statements (see note 5b)	**63.0**	(39.3)
Exceptional items (see note 4)	**-**	(20.0)
Underlying (loss)/profit for the year	**(35.9)**	17.7

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 15 month period to 31 March 2017 was £30.2m.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 £m	2016 £m
(Loss)/profit for the year		**(70.0)**	85.9
Items that will not be reclassified to profit or loss			
Actuarial loss recognised in the pension scheme	22	**(43.3)**	(24.6)
Related deferred tax	7	**5.9**	3.7
Revaluation of property, plant and equipment	8	**156.8**	1,247.8
Related deferred tax	7	**(15.3)**	(224.6)
Total items that will not be reclassified to profit or loss		**104.1**	1,002.3
Total comprehensive income for the year		**34.1**	1,088.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 April 2015	-	(6.4)	**(6.4)**
Profit for the year	-	85.9	**85.9**
Actuarial loss net of tax	-	(20.9)	**(20.9)**
Revaluation net of tax	1,023.2	-	**1,023.2**
Transfer to retained earnings	(45.3)	45.3	**-**
At 31 March 2016	977.9	103.9	**1,081.8**
(Loss)/profit for the year	-	(70.0)	**(70.0)**
Actuarial loss net of tax	-	(37.4)	**(37.4)**
Revaluation net of tax	141.5	-	**141.5**
Transfer to retained earnings	(50.3)	50.3	**-**
At 31 March 2017	1,069.1	46.8	**1,115.9**

The parent company had £30.2m reserves as at 31 March 2017 which related to dividends received from its wholly-owned subsidiary.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Property, plant and equipment	9	**5,065.2**	4,841.3
Intangible assets	10	**119.5**	105.7
Financial assets:			
- derivative financial instruments	16	**2.2**	0.2
		5,186.9	4,947.2
Current assets			
Trade and other receivables	12	**563.2**	544.2
Inventories		**2.8**	2.1
Financial assets:			
- derivative financial instruments	16	**4.0**	3.6
Cash and cash equivalents	13	**100.6**	135.1
		670.6	685.0
Total assets		**5,857.5**	5,632.2
Liabilities			
Current liabilities			
Trade and other payables	14	**(556.5)**	(527.4)
Financial liabilities:			
- borrowings	15	**(39.3)**	(73.5)
- derivative financial instruments	16	**(35.2)**	(24.0)
Provisions for other liabilities and charges	18	**(1.2)**	(3.2)
		(632.2)	(628.1)
Net current assets		**38.4**	56.9
Non-current liabilities			
Trade and other payables	14	**(204.6)**	(159.2)
Financial liabilities:			
- borrowings	15	**(2,938.8)**	(2,869.7)
- derivative financial instruments	16	**(448.0)**	(393.8)
Post employment benefits	22	**(95.2)**	(56.5)
Provisions for other liabilities and charges	18	**(9.6)**	(11.3)
		(3,696.2)	(3,490.5)
Net assets before deferred tax		**1,529.1**	1,513.6
Deferred tax - net	7	**(413.2)**	(431.8)
Net assets		**1,115.9**	1,081.8
Equity			
Revaluation reserve		**1,069.1**	977.9
Retained earnings		**46.8**	103.9
		1,115.9	1,081.8

The financial statements on pages 117 to 148 were approved by the Board of Directors on 8 June 2017 and were signed on its behalf by:

C.A. Jones

C A Jones
Chief Executive

P Bridgewater

P J Bridgewater
Finance and Commercial Director

PARENT COMPANY BALANCE SHEET AS AT 31 MARCH 2017

	Note	2017 £m
Assets		
Non-current assets		
Investment in subsidiaries	11	3,228.6
		3,228.6
Current assets		
Cash and cash equivalents	13	30.1
		30.1
Net assets		3,258.7
Reserves		
Retained earnings		30.2
Revalution reserve		3,228.5
Total reserves		3,258.7

STATEMENT OF CHANGES IN RESERVES FOR THE PERIOD ENDED 31 MARCH 2017

	Revaluation reserve £m	Retained earnings £m	Total £m
Balance at incorporation	-	-	-
Profit for the period	3,228.5	30.2	3,258.7
Balance at 31 March	3,228.5	30.2	3,258.7

The parent company was incorporated on 15 December 2015. It acts as a holding company and does not trade.

The financial statements on pages 117 to 148 were approved by the Board of Directors on 8 June 2017 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 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	19a	**336.9**	368.9
Interest paid	19b	**(124.6)**	(128.9)
Income tax received		**1.1**	0.2
Net cash generated from operating activities		**213.4**	240.2
Cash flows from investing activities			
Interest received		**3.8**	5.6
Purchase of property, plant and equipment		**(237.7)**	(195.0)
Purchase of intangible assets		**(33.5)**	(25.0)
Grants and contributions received		**16.1**	16.7
Net cash outflow from investing activities		**(251.3)**	(197.7)
Net cash flow before financing activities		**(37.9)**	42.5
Cash flows from financing activities			
Long term loans received		**70.0**	-
Repayment of borrowings		**(36.9)**	(80.4)
Term loan repayments		**(20.3)**	(46.6)
Finance lease principal payments		**(9.3)**	(51.4)
Other loan repayments		**(0.1)**	(0.2)
Net cash flow from financing activities		**3.4**	(178.6)
Decrease in cash and cash equivalents	20b	**(34.5)**	(136.1)
Cash and cash equivalents at 1 April		**135.1**	271.2
Cash and cash equivalents at 31 March	13	**100.6**	135.1

PARENT COMPANY CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 MARCH 2017

	2017 £m
Cash flow from investing activities	
Dividend received	**30.2**
Investment in subsidiary company	**(0.1)**
Net cash flow from investing activity	**30.1**
Net increase in cash and cash equivalents	**30.1**
Cash and cash equivalents at incorporation	**-**
Cash and cash equivalents at 31 March	**30.1**

1. ACCOUNTING POLICIES, FINANCING RISK MANAGEMENT AND ACCOUNTING ESTIMATES

Accounting policies for the year ended 31 March 2017
Glas Cymru Holdings Cyfyngedig ("the company") is a private company incorporated, domiciled and registered in England and Wales. The registered number is 09917809 and the registered address is Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.

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

Basis of preparation
A new company called Glas Cymru Holdings Cyfyngedig (GCHC) was incorporated in December 2015. This company is a company limited by guarantee. The Members of Glas Cymru Anghyfyngedig have now transferred to be Members of Glas Cymru Holdings Cyfyngedig. Accordingly GCHC is now the ultimate parent company of the Glas Group.

For the purposes of these financial statements , as there has been no change in the overall ownership of the Group, the Group has been able to utilise Section 611 of the Companies Act (Group reconstruction relief), alongside the 'Common Control' exemptions within EU-IFRS to prepare the accounts on the basis that the current structure always existed.

The comparatives included within these accounts for the Year ended 31 March 2016 were those published for the previous Glas Cymru Anghyfyngedig Group, meaning that these financial statements show a comparable view of the Group.

The consolidated financial statements of Glas Cymru Holdings Cyfyngedig have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 to conform 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 125.

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 2017 and have not been adopted early:

— IAS 7 Statement of cash flows - more explicit disclosures
— IAS 12 Income tax - clarifies the recognition criteria for deferred tax assets arising from debt instruments
— IAS 28 Investment in associates and joint ventures — clarification of fair value measurement
— IAS 40 Investment property - further clarification
— IFRS 9 Financial instruments
— IFRS 12 Disclosure of interests in other entities
— IFRS 15 Revenue from contracts with customers
— IFRS 16 Leases

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

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.

Investments
The parent company's investments comprise equity holdings in wholly-owned subsidiaries, as set out in note 11. These are stated at fair value, with any resultant gain or loss being recognised directly in equity, in revaluation reserve.

The fair value has been calculated using a DCF (discounted cash flow) technique, alongside considering observable market transactions, with reference to the Group's weighted average cost of capital.

Property, plant and equipment

Property, plant and equipment were included at cost less accumulated depreciation up to 31 March 2015.

From 1 April 2015 the group has followed a policy of valuing its assets at fair value; further details are provided in note 8. Subsequent additions are recorded at cost and depreciation is charged on both the historical cost base and on the revaluation.

Property, plant and equipment comprise:

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

b) Other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

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

Infrastructure assets

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

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

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

Other assets

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

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

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

Borrowing costs

General and specific borrowing costs directly attributable to 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, the DCWW Pension Scheme, which was closed to future accrual from 1 April 2017 for all members except 18 ESPS section members. The scheme is funded by employer contributions as well as employee contributions from the remaining active members. Contribution rates are based on the advice of a professionally qualified actuary and actuarial valuations of the scheme are carried out at least every three years.

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. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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

Past-service costs are recognised immediately in income.

2) Defined contribution scheme
The Group operates a defined contribution scheme, the DCWW Group Personal Pension Plan, which all employees are eligible to join. 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 2017, none of the Group's derivatives qualified for hedge accounting under IAS 39 (2016: 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 loss/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 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 long-term 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 one month with banks subject to minimum long-term rating criteria of A-/A3/A-. 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 £69m (2016: £29m).

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 £2,978m as at 31 March 2017 (2016: £2,943m) none related to floating rate debt (2016: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2017, 100% (2016: 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 £477m in the balance sheet at 31 March 2017 (2016: £414m) 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 £2,923m (2016: £2,853m) can fall due in any 24 month period.

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

Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months. As at 31 March 2017, the Group had committed undrawn borrowing facilities of £460m (2016: £280m) and cash and cash equivalents (excluding debt service payments account) of £95m (2016: £80m).

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 was drawn on 5 May 2017. The loan will start to amortise from May 2020 and will be repayable in six-monthly instalments ending at November 2025.

The Group agreed another loan facility in January 2017 of £250m with the European Investment Bank, all of which is undrawn. The facility is available to be drawn until January 2019.

The Group has £150m of undrawn revolving credit facilities; £130m of these will expire in 2020 and the remainder are available until 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 (2016: £10m) which is renewable on an annual basis.

As at 31 March 2017 there was also a special liquidity facility of £135m (2016: £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 2017 regulatory gearing was 56% (2016: 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 £1.0m (2016: £0.8m).

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 2017 would increase or reduce by £9.9m (2016: £7.7m).

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 2017 was £68.8m (2016: £64.9m). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.5m (2016: £0.7m).

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 2017 were valued as follows:

Critical accounting estimates
Assets: trading derivatives £2.6m, treasury derivatives £3.6m. (March 2016: trading derivatives £0.2m, treasury derivatives £3.6m).

Liabilities: trading derivatives £3.3m treasury derivatives £479.9m. (March 2016: trading derivatives £9.4m, treasury derivatives £408.4m).

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 judgment involved in detemining 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	2017 £m	2016 £m
Operating expenditure		
Power	**41.0**	42.6
Chemicals	**9.3**	9.5
Materials and equipment	**5.5**	5.7
Vehicles and plant	**7.8**	7.2
Office expenses	**10.3**	7.3
Property costs	**3.5**	4.5
Insurance	**5.7**	4.5
Sewerage contractors	**18.5**	14.9
Laboratories and analytical services	**0.7**	0.6
Collection commissions	**3.6**	4.0
IT contracts	**16.2**	13.6
Bought-in services and other costs	**35.3**	35.6
Employee costs (note 21)	**134.4**	127.2
Staff costs capitalised	**(48.3)**	(46.2)
Research and development credit	**-**	(1.1)
Trade receivables impairment	**23.3**	27.0
Rates	**30.5**	25.3
Natural Resources Wales/Environment Agency charges	**14.8**	14.7
Fees payable to auditors	**0.5**	0.4
Total operational expenditure before exceptional items	**312.6**	297.3
Exceptional items	**-**	(20.0)
Total operational expenditure including exceptional items	**312.6**	277.3
Infrastructure renewals expenditure	**69.7**	58.0
Depreciation and amortisation		
Depreciation of property plant and equipment	**241.4**	230.7
Release of deferred income	**(4.5)**	(3.5)
Amortisation of intangible assets	**19.7**	19.9
Total depreciation and amortisation	**256.6**	247.1
Total operating costs	**638.9**	582.4

Services provided by the Group's auditors

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

Group	2017	2016
Audit fees	**£000**	£000
Audit of parent company and consolidated financial statements	**20**	10
Audit of subsidiary companies	**120**	85
Total audit fees	**140**	95
Audit-related assurance services		
Review of interim financial statements	**22**	22
Regulatory audit services pursuant to legislation	**39**	29
Regulatory price review assurance work	**14**	-
Scheme of charges assurance work	**25**	22
Investor report reviews	**6**	5
Wholesale charges assurance work	**22**	-
Total audit and audit-related assurance services	**268**	173
Other services		
Assurance on group restructure	**-**	3
Pensions advice	**37**	235
Tax advice	**17**	5
Assurance on market opening	**25**	25
Assurance on commercial activities	**85**	-
Gender gap survey	**30**	-
Total other services	**194**	268
Total cost of services provided by the Group's auditors	**462**	441

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

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 will be subject to approval by the Audit Committee.

4. EXCEPTIONAL ITEMS

There were no exceptional items during the year. In 2016 a business rates refund of £20m was received relating to the 2005 water network assessment. This was treated as exceptional due to its size.

5. FINANCING COSTS

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

Group	2017 £m	2016 £m
Interest payable on bonds	**(88.4)**	(87.7)
Indexation on index-linked bonds	**(24.8)**	(13.1)
Indexation on index-linked loan	**(5.7)**	(1.4)
Interest payable on finance leases (including swaps to RPI)	**(18.5)**	(14.4)
Other loan interest	**(12.6)**	(12.7)
Other interest payable and finance costs	**(1.9)**	(2.3)
Net interest charge on pension scheme liabilities	**(1.8)**	(1.0)
Capitalisation of borrowing costs under IAS 23 (2017: 5.2%; 2016: 3.4%)	**9.5**	3.9
	(144.2)	(128.7)
Finance income	**3.6**	5.6
Net finance cost before fair value adjustments	**(140.6)**	(123.1)

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	2017 £m	2016 £m
Fair value (losses)/gains on interest rate swaps	**(2.6)**	15.2
Fair value (losses/gains on index-linked swaps	**(60.4)**	24.1
Total fair value (losses)/gains on derivative financial instruments	**(63.0)**	39.3

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

6. TAXATION

Analysis of (charge)/credit in the year

Group	2017 £m	2016 £m
Current tax		
Current tax on profits for the year	**1.0**	(0.1)
Current tax on research and development credit	**-**	(0.2)
Adjustment in respect of prior years	**(0.1)**	0.4
Total current tax	**0.9**	0.1
Deferred tax		
Origination and reversal of timing differences	**17.5**	(15.0)
Adjustment in respect of prior year	**(1.9)**	(0.3)
Effect of tax rate change	**12.4**	24.1
Total deferred tax (note 7)	**28.0**	8.8
Taxation credit/(charge)	**28.9**	8.9

The current tax credit of £1.0m has arisen from the surrender of tax losses relating to energy efficient capital expenditure.

Tax trading losses carried forward as at 31 March 2017 are £189m (2016: £233m) and have decreased as a result of disclaiming capital allowances in relation to a prior period.

Adjustments in respect of prior years relate to revisions to deferred tax balances in respect of capital expenditure.

Deferred taxes have benefited from a £12.4m credit (2016: £24.1m credit) following reductions made to the future rates of corporation taxes. The rate used to calculate deferred taxes fell from 18% to 17% for the current period (2016: 20% to 18%). The Government has not announced any further reductions to corporation tax rates and therefore no further credits arising from rate changes are expected in future periods.

The effective rate of tax for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

Group	2017 £m	2016 £m
(Loss)/profit before tax	**(98.9)**	77.0
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 20% (2016: 20%)	**(19.8)**	15.4
Effect of:		
- Adjustments in respect of prior years	**1.9**	(0.2)
- Other permanent differences	**0.7**	0.1
- Effect of pension payment in excess of service charge	**(1.0)**	(0.1)
- Effect of tax rate change on closing deferred tax from 18% to 17%	**(12.4)**	(24.1)
- Difference in standard rate of corporation tax (20%) and rate used for deferred tax (18%)	**1.7**	-
Total taxation credit	**(28.9)**	(8.9)

7. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2016: 18%).

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

Group	2017 £m	2016 £m
At 1 April	**431.8**	219.8
Credit to Income Statement	**(28.0)**	(8.9)
Charge to Statement of Comprehensive Income	**(5.9)**	(3.7)
Charge to Revaluation Reserve	**15.3**	224.6
At 31 March	**413.2**	431.8

Analysis of amounts (credited)/charged to the Statement of Comprehensive Income and Revaluation Reserve:

Group	2017 £m	2016 £m
Defined benefit pension schemes	**(7.8)**	(4.9)
Reallocation of tax from income statement- pension payment in excess of service charge	**1.0**	0.1
Reduction in corporation tax rate - pension scheme	**0.9**	1.1
	(5.9)	(3.7)
Revaluation of fixed assets	**28.2**	249.6
Reduction in corporation tax rate - revaluation of fixed assets	**(12.9)**	(25.0)
	15.3	224.6

Group	2017 £m	2016 £m
Effect of:		
- Tax allowances in excess of depreciation	**316.0**	336.1
- Deferred tax on revaluation of fixed assets	**218.9**	214.7
- Capital gains rolled over	**2.7**	2.9
- Deferred tax on tax losses carried forward	**(32.1)**	(42.0)
- Deferred tax on losses on derivative financial instruments	**(75.1)**	(68.6)
- Pensions	**(15.7)**	(9.8)
- Other tax differences	**(1.5)**	(1.5)
Net provision for deferred tax	**413.2**	431.8

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 (2016: 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 its five yearly price reviews. The Group considers 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' current value in use.

As at 31 March 2017 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow RCV', being the 31 March 2017 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 is reviewed for impairment if circumstances dictate that the carrying value may not be recoverable, asset lines and residual values are reviewed annually.

Revaluation reserve movement	**2017**	**2016**
	£m	**£m**
Revaluation reserve as at 1 April	**977.9**	-
Revaluation of assets to RCV	**156.8**	1,247.8
Depreciation charge on revalued assets	**(61.3)**	(55.2)
	95.5	1,192.6
Deferred tax on revaluation	**(15.3)**	(224.6)
Deferred tax on depreciation charge	**11.0**	9.9
	(4.3)	(214.7)
Revaluation reserve as at 31 March	**1,069.1**	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 2016	41.6	2,090.1	3,681.9	262.4	6,076.0
Revaluation	-	24.3	-	-	24.3
Additions net of grants and contributions	0.1	122.1	184.2	2.1	308.5
Disposal	-	-	-	(0.4)	(0.4)
At 31 March 2017	**41.7**	**2,236.5**	**3,866.1**	**264.1**	**6,408.4**
Accumulated depreciation					
At 1 April 2016	19.8	-	955.2	259.7	1,234.7
Revaluation	-	(43.8)	(88.7)	-	(132.5)
Charge for the year	0.8	43.8	192.7	4.1	241.4
Released on disposal	-	-	-	(0.4)	(0.4)
At 31 March 2017	**20.6**	**-**	**1,059.2**	**263.4**	**1,343.2**
Net book value					
At 31 March 2017 (See note 8)	**21.1**	**2,236.5**	**2,806.9**	**0.7**	**5,065.2**
At 31 March 2017 (historic cost basis)	21.1	1,662.8	2,092.4	0.7	3,777.0

The net book value of property, plant and equipment include £207.6m in respect of assets in the course of construction (2016: £109.0m); and

£42.9m of borrowing costs capitalised in accordance with IAS 23 (2016: £35.7), of which £8.4m were additions in the year (2016: £3.4m).

Prior 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
Disposals	-	-	-	(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 basis)	21.8	1,574.0	2,050.2	2.7	3,648.7

Assets held under finance leases

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

Group **Current year**	**Infrastructure assets £m**	**Operational structures £m**	**Total £m**
At 31 March 2017			
Cost	611.8	117.7	729.5
Accumulated depreciation	(113.3)	(84.8)	(198.1)
Net book value	498.5	32.9	531.4

Prior year	**Infrastructure assets £m**	**Operational structures £m**	**Total £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

The parent company owns no property, plant or equipment.

10. INTANGIBLE ASSETS

Group **Current year**	**Cost £m**	**Amortisation £m**	**Net book value £m**
At 1 April 2016	241.3	(135.6)	105.7
Additions/(charge for the year)	33.5	(19.7)	13.8
At 31 March 2017	274.8	(155.3)	119.5

Prior year	**Cost £m**	**Amortisation £m**	**Net book value £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

Intangible assets comprise computer software and related system developments.

The net book value of intangible assets includes £20.0m in respect of assets in the course of construction (2016: £20.2m). The net book value of intangible assets includes £3.6m of borrowing costs capitalised in accordance with IAS 23 (2016: £2.8m), of which £1.1m were additions in the year (2016: £0.5m).

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 100% holding in Glas Cymru (Securities) Cyfyngedig and has indirect investments in the following subsidiary undertakings:

	Principal activities	Country of incorporation	Tax residency	Holding
Dŵr Cymru (Holdings) Limited	Holding company	England and Wales	UK resident	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	England and Wales	UK resident	100%
Dŵr Cymru (Financing) Limited	Raising finance	Cayman Islands	UK resident	100%
Welsh Water Holdings Limited	Holding company	England and Wales	UK resident	100%
Cambrian Utilities Limited	Retail services in the competitive market	England and Wales	UK resident	100%
Welsh Water Infrastructure Limited	Unregulated business activity in the water sector and other associated sectors	England and Wales	UK resident	100%

The registered office of all of the above companies is Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.

Welsh Water Utilities Finance plc, Hydro 1 Limited and Dŵr Cymru Customer Services Limited were placed into voluntary liquidation during the period as they were no longer trading.

During the period the company has revalued its investments in subsidiary undertakings to fair value. The carrying value will be revalued annually subject to an impairment review.

Further information on the Group's structure is available in the Annual Report on page 70.

12. TRADE AND OTHER RECEIVABLES

Group	2017 £m	2016 £m
Current		
Trade receivables	**556.6**	537.0
Provision for impairment of receivables	**(95.8)**	(85.3)
Trade receivables – net	**460.8**	451.7
Prepayments and accrued income	**90.2**	82.0
Other receivables	**12.2**	10.5
Total trade and other receivables	**563.2**	544.2

As at 31 March 2017, based on a review of historical collection rates it was considered that £95.8m (2016: £85.3m) 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 and sewerage services. 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	**370.2**	-	**370.2**
Under one month	**25.4**	**(9.1)**	**16.3**
Between one and six months	**33.5**	**(13.1)**	**20.4**
Between six months and one year	**33.3**	**(5.8)**	**27.5**
Between one and two years	**39.3**	**(24.0)**	**15.3**
Between two and three years	**34.4**	**(23.3)**	**11.1**
Over three years	**20.5**	**(20.5)**	-
	556.6	**(95.8)**	**460.8**

Prior 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

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:

	2017 £m	2016 £m
At 1 April	**85.3**	78.9
Charge to Income Statement	**22.8**	26.4
Receivables written off during the year as uncollectable	**(12.3)**	(20.0)
At 31 March	**95.8**	85.3

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 £23.3m (2016: £27.0m) includes the bad debt element of local authority collection charges where local authorities collect debt on the Group's behalf (2017: £0.5m, 2016: £0.6m)

13. CASH AND CASH EQUIVALENTS

	Group 2017 £m	Group 2016 £m	Company 2017 £m
Cash at bank and in hand	**36.6**	47.7	**-**
Short-term deposits	**64.0**	87.4	**30.1**
	100.6	135.1	**30.1**

The effective interest rate on short-term deposits as at 31 March 2017 was 0.2% (2016: 0.5%) and these deposits had an average maturity of 16 days (2016: 43 days). With the exception of €32,000, all cash and cash equivalents are held in sterling.

14. TRADE AND OTHER PAYABLES

Group **Current**	**2017 £m**	**2016 £m**
Trade payables	**44.6**	37.1
Capital payables	**65.8**	41.3
Social security and other taxes	**4.3**	4.0
Accruals and deferred income	**441.8**	445.0
	556.5	527.4

Group **Non-current**	**2017 £m**	**2016 £m**
Deferred income	**204.6**	159.2

15. FINANCIAL LIABILITIES — BORROWINGS

Group Current	2017 £m	2016 £m
Overdrawn funds	**5.9**	42.8
Interest accruals	**0.9**	0.8
Unamortised bond premium	**0.7**	0.6
Unamortised bond issue costs	**(0.4)**	(0.4)
European Investment Bank loans	**21.6**	20.3
Local authority loans	**0.1**	0.1
Finance lease obligations	**10.5**	9.3
	39.3	73.5

Group Non-current	2017 £m	2016 £m
Interest accruals	**48.2**	46.8
Bonds	**2,012.1**	1,987.4
Unamortised bond premium	**5.9**	6.6
Unamortised bond issue costs	**(4.0)**	(4.3)
European Investment Bank loans	**440.1**	386.1
Local authority loans	**0.5**	0.6
Finance lease obligations	**436.0**	446.5
	2,938.8	2,869.7

The parent company has no borrowings.

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

The obligations of DCC are guaranteed by Glas Cymru Anghyfyngedig, 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 £989m (2016: £979m) benefit from a guarantee from Assured Guaranty. Assured Guaranty's credit rating has been reduced to Baa2 and A by Moody's and S&P respectively, and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A2/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 guarantee from Assured Guaranty, and is the same as the credit ratings of the Group's Class B bonds of £1,023m (2016: £1,008m).

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.

Fair values	**Assets**	**Liabilities**
Group — 2017	**£m**	**£m**
Current		
Index-linked swaps	**3.6**	**(25.8)**
Interest rate swaps	**-**	**(9.2)**
Power hedging swaps	**0.4**	**(0.2)**
	4.0	**(35.2)**
Non-current		
Index-linked swaps	**-**	**(360.5)**
Interest rate swaps	**-**	**(84.4)**
Power hedging swaps	**2.2**	**(3.1)**
	2.2	**(448.0)**
Total	**6.2**	**(483.2)**

Fair values	**Assets**	**Liabilities**
Group — 2016	**£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)

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 2017 an interest rate swap fixes the interest rate on £192m (2016: £192m) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031 and the quarterly 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 £381m (2016: £382m) 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 2017 is £400m (2016: £400m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2017. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The principal terms of the index linked swaps are as follows:

Notional amount	£400m amortising (2016: £400m amortising)
Average swap maturity	18 years (2016: 19 years)
Average interest rate	1.35% fixed plus RPI (2016: 1.35% 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	£135m (2016: £133m)
Swap maturity	40 years (2016: 41 years)
Interest rate	1.35% indexed by RPI (2016: 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 124. 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:

	2017	2016
Assets:		
Cash and cash equivalents	**0.2%**	0.5%
Liabilities:		
Bonds	**4.3%**	4.4%
European Investment Bank loans	**0.5%**	0.7%
Local authority loans	**5.0%**	4.2%
Finance lease obligations	**2.0%**	1.0%
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 17. 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	**100.6**	-	-	-	**100.6**
Trade and other receivables	**563.3**	-	-	-	**563.3**
	663.9	-	-	-	**663.9**
Liabilities:					
Cash and cash equivalents	**5.9**	-	-	-	**5.9**
Bonds	**0.7**	**0.7**	**327.1**	**1,690.2**	**2,018.7**
European Investment Bank loans	**21.6**	**21.6**	**163.0**	**255.5**	**461.7**
Local authority loans	**0.1**	**0.1**	**0.4**	-	**0.6**
Finance lease obligations	**10.5**	**11.9**	**45.5**	**378.6**	**446.5**
Trade and other payables	**556.5**	**1.8**	**4.9**	**197.9**	**761.1**
Future interest payable	**112.9**	**113.5**	**335.6**	**917.5**	**1,479.5**
	708.2	**149.6**	**876.5**	**3,439.7**	**5,174.0**

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	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

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

	2017 £m	2016 £m
Gross finance lease liabilities		
Within one year	**19.6**	16.3
Between two and five years	**99.2**	90.6
After five years	**439.6**	464.7
	558.4	571.6
Future interest	**(111.9)**	(115.8)
Net finance lease liabilities	**446.5**	455.8
Net finance lease liabilities are repayable as follows:		
Within one year (note 15)	**10.5**	9.3
Between two and five years	**57.4**	51.0
After five years	**378.6**	395.5
Total over one year (note 15)	**436.0**	446.5

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.

	2017 Book value £m	2017 Fair value £m	2016 Book value £m	2016 Fair value £m
Bonds (note 17)	**2,018.7**	**2,934.4**	1,994.6	2,604.9

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

d) Borrowing facilities

As at 31 March 2017, the Group had available undrawn committed borrowing facilities of £460m expiring as set out below, in respect of which all conditions precedent had been met (2016: £280m).

	2017 £m	2016 £m
Expiring in less than 1 year:		
- term loan facility	**60**	70
Expiring in more than 1 year:		
- revolving credit facilities	**150**	150
- term loan facility	**250**	60
	400	210
	460	280

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

The term loan facility of £60m with KfW-IPEX Bank was drawn on 5 May 2017. The loan will start to amortise from May 2020 and will be repayable in six monthly instalments until November 2025.

The Group agreed another loan facility in January 2017 of £250m with the European Investment Bank, all of which is undrawn. The facility is available to be drawn until January 2019.

The Group also has £150m of undrawn revolving credit facilities, £130m of which will expire during 2020. The remaining £20m is available until 2019 with an option to extend (subject to the consent of the providers) for a further year to 2020.

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

At 31 March 2017 Dŵr Cymru (Financing) Limited also had a special liquidity facility of £135m (2016: £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	2017 £m	2016 £m
Total borrowings	**(2,978)**	(2,943)
Less: cash and cash equivalents	**101**	135
Net debt	**(2,877)**	(2,808)
Regulatory capital value (RCV)	**5,217**	4,983
Total capital	**2,340**	2,175
Less: unamortised bond costs and swap indexation	**(39)**	(38)
Total capital per bond covenants	**2,301**	2,137
Gearing ratio	**56%**	57%

As set out on page 131, the Group monitors its capital structure based on a regulatory gearing ratio which compares the net debt to the Ofwat-determined RCV.

Per the Common Terms Agreement, regulatory gearing is calculated as the level of net debt in the whole business securitisation relative to the regulatory capital value.

18. PROVISIONS

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2016	5.9	0.8	3.9	3.9	14.5
(Credited)/Charged to income statement	-	(0.2)	1.7	-	1.5
Utilised in year	(1.9)	(0.1)	(1.3)	(1.9)	(5.2)
At 31 March 2017	**4.0**	**0.5**	**4.3**	**2.0**	**10.8**
Split as:					
Amounts to be utilised within one year	1.0	0.2	-	-	1.2
Amounts to be utilised after more than one year	3.0	0.3	4.3	2.0	9.6
At 31 March 2017	**4.0**	**0.5**	**4.3**	**2.0**	**10.8**

The parent company has no provisions at 31 March 2017.

Restructuring provision
This provides for the cost of restructuring associated with a reduction in the headcount by around 360 pursuant to the restructuring plan for the five year period 2015-2020 as a whole.

Dilapidations provision
This provision relates to estimated dilapidation costs, which will be incurred over the next four 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	2017 £m	2016 £m
Operating profit	**104.7**	160.8
Adjustments for:		
- Depreciation and amortisation	**256.6**	247.1
- Changes in working capital:		
Increase in trade and other receivables	**(20.4)**	(11.8)
Decrease in inventories	**(0.7)**	(0.1)
Increase/(decrease) in trade and other payables	**6.3**	(12.4)
Pension contributions above service cost	**(6.2)**	(1.6)
Decrease in provisions	**(3.4)**	(13.1)
	(24.4)	(39.0)
Cash generated from operations	**336.9**	368.9

Pension contributions 'above service' cost represent DCWW Pension Scheme deficit recovery costs paid in accordance with the Recovery Plan agreed between the Company and the Scheme's Trustees.

b) Interest paid

Group	2017 £m	2016 £m
Interest payable per income statement	**144.2**	128.7
Less non-cash items:		
- Indexation on index-linked bonds	**(24.8)**	(13.1)
- Indexation on index-linked debt	**(5.7)**	(1.4)
- Amortisation of bond issue costs	**(0.3)**	(0.2)
- Interest charge on pension scheme liabilities	**(1.8)**	(1.0)
- Amortisation of bond issue premium	**0.6**	0.7
- Effect of capitalisation under IAS 23	**9.5**	3.9
- Decrease in accruals	**2.9**	11.3
	(19.6)	0.2
Interest paid	**124.6**	128.9

20. ANALYSIS AND RECONCILIATION OF NET DEBT

Net debt is defined as the value of cash and cash equivalents less net accrued interest and total borrowings.

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m
Cash and cash equivalents	**100.6**	135.1	30.1
Debt due after one year	**(2,454.6)**	(2,376.4)	-
Debt due within one year	**(27.9)**	(63.4)	-
Finance leases	**(446.5)**	(455.8)	-
Accrued interest	**(49.1)**	(47.6)	-
	(2,978.1)	(2,943.2)	-
Net (debt)/cash	**(2,877.5)**	(2,808.1)	30.1

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m
Net debt at start of year	**(2,808.1)**	(2,878.9)	**-**
Movement in net cash	**(34.5)**	(136.1)	**30.1**
Movement in debt arising from cash flows	**(3.4)**	178.6	**-**
Movement in net debt arising from cash flows	**(37.9)**	42.5	**30.1**
Movement in accrued interest	**(1.5)**	11.2	**-**
Indexation of index-linked debt	**(30.5)**	(14.5)	**-**
Bond indexation adjustment	**-**	31.2	**-**
Other non-cash movements	**0.5**	0.4	**-**
Movement in net debt during the year	**(69.4)**	70.8	**30.1**
Net (debt)/cash at end of year	**(2,877.5)**	(2,808.1)	**30.1**

21. EMPLOYEES AND DIRECTORS

Staff costs for the Group during the year

	2017 £m	2016 £m
Wages and salaries	**110.8**	104.9
Social security costs	**10.8**	9.7
Other pension costs	**12.8**	12.6
	134.4	127.2

Of the above, £48.3m (2016: £46.2m) has been capitalised.

Average monthly number of people employed by the Group (including Executive Directors)	2017 Number	2016 Number
Regulated water and sewerage activities	**3,091**	3,007

For further information see the Remuneration Report on page 82.

No remuneration was paid or is payable by the parent company. The directors are employed by other companies in the group and consider their duties to this company incidental to their other activities within the group. The parent company had no employees during the period other than the directors.

22. PENSION COMMITMENTS

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

The Welsh Water Pension Scheme was closed to new members from 31 December 2005 and closed for future accruals from 1 April 2017. 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 2016 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 2017 and the principal assumptions made by the actuaries were:

	2017	2016
Discount rate	**2.8%**	3.6%
Inflation assumption	**3.2%**	3.0%
Rate of increase in pensionable salaries	**3.2%**	3.0%
Rate of increase in pensions in payment	**3.1%**	2.9%
Post retirement mortality (life expectancy):		
Current pensioners aged 65 – males	**87.0 years**	87.0 years
Current pensioners aged 65 – females	**89.0 years**	88.9 years
Future pensioners aged 65 (currently aged 45) – males	**88.3 years**	88.2 years
Future pensioners aged 65 (currently aged 45) – females	**90.5 years**	90.4 years

The mortality assumptions are the S2PxA base tables with future improvements in line with the CM1 2016 projection model with a long term trend rate of 1% p.a.

Changes in the defined benefit obligation are as follows:

	2017 £m	2016 £m
At 1 April	**413.1**	396.6
Current service cost	**4.8**	10.0
Interest expense	**14.5**	13.4
Remeasurements		
Loss from change in financial assumptions	**90.3**	20.4
Gain from change in demographic assumptions	**-**	(4.5)
Experience gains	**-**	(7.5)
	90.3	8.4
Benefits paid	(25.4)	(15.3)
At 31 March	**497.3**	413.1

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

	2017 £m	2016 £m
At 1 April	**358.6**	366.1
Interest income	**12.7**	12.4
Expenses	**(0.4)**	(0.5)
Experience gains/(losses)	**47.0**	(16.2)
Contributions	**12.4**	12.1
Benefits paid	**(25.4)**	(15.3)
At 31 March	**404.9**	358.6

Experience gains and losses are differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation and changes in the actuarial assumptions during the year.

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

	2017 £m	2016 £m
Present value of funded obligations	**(497.3)**	(413.1)
Fair value of plan assets	**404.9**	358.6
	(92.4)	(54.5)
EFRBS unfunded liability	**(2.8)**	(2.0)
Net defined benefit liability recognised in the balance sheet	**(95.2)**	(56.5)

	2017	2016	2015	2013	2012	2011
Experience adjustments arising on scheme assets:						
Amount (£m)	**47.0**	(16.2)	(24.2)	(2.9)	17.9	(9.5)
Percentage of scheme assets	**(11.6%)**	4.5%	7%	1%	6%	4%
Experience adjustments arising on scheme liabilities:						
Amount (£m)	**(90.3)**	(8.4)	(60.7)	(5.1)	(15.7)	(16.4)
Percentage of the present value of scheme liabilities	**18%**	2%	15%	2%	5%	6%
Present value of scheme liabilities (£m)	**497.3**	413.1	396.6	320.0	323.2	272.7
Fair value of scheme assets (£m)	**404.9**	358.6	366.1	318.8	291.1	240.8
Deficit (£m)	**(92.4)**	(54.5)	(30.5)	(1.2)	(32.1)	(31.9)

The contributions paid in the year to 31 March 2017 include special contributions of £7.2m (2016: £1.3m). There were no contributions paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2016: nil) The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2018 amounts to £6.7m.

	Change in assumption	Increase in liabilities
Discount rate	0.10%	9.9m
Price inflation	0.10%	9.6m
Life expectancy	1 year	(13.3m)

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.

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 DCWW Pension Scheme. At 31 March 2017, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

23. CAPITAL AND OTHER FINANCIAL COMMITMENTS

The Group's business plan at 31 March 2017 shows net capital expenditure and infrastructure renewals expenditure of £406m (2016: £352m) 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

During the period ended 31 March 2017 the parent company received dividends totalling £30.2 million from its wholly-owned subsidiary, Glas Cymru Anghyfyngedig.

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 from the Elan Valley 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 2017 the market value of the trust fund was £118m (2016: £111m).

Interest receivable includes £2.7m (2016 £3.5m) 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 within which the reports of the company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig.

APPENDICES

GLOSSARY

Abstraction	The removal of water from any source.
AMP	The water industry operates on five-yearly cycles called 'Asset Management Plans'. 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.
Catchment	An area of land through which water drains into a body of water (such as a river or reservoir).
Combined sewer	Combined sewer for sewage and rain water runoff.
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 58.
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 maintain net debt at around 60% of the RCV with 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 58.
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 58.
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 Group holding company. Glas Cymru Cyfyngedig 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.
LVPS	Long-term Variable Pay Scheme. A performance related element of emoluments.
'Look-up' Compliance	This is where a wastewater treatment works fails to meet the consented parameters set by the NRW or EA for less than 95% of the time.
Mean Zonal Compliance (MZC)	Mean Zonal Compliance 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.
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 removing the effect of inflation.

Regulatory Capital Value (RCV)	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	Site of Special 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	An Ofwat abbreviation for total expenditure. 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 (WWTW)	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 (WRMP)	This outlines how a water company will maintain a sustainable balance between water supplies and demand over the next 25 years.
Water treatment works (WTW)	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.

glas
Glas Cymru Holdings Cyf

Dŵr Cymru
Welsh Water

GLAS CYMRU HOLDINGS CYFYNGEDIG
COMPANY NUMBER: 09917809