GLAS CYMRU

PRELIMINARY RESULTS

2019

Dŵr Cymru
Welsh Water

COMANY NUMBER: 09917809

FOREWORD TO THE PRELIMINARY RESULTS ANNOUNCEMENT

BASIS OF PREPARATION

The following announcement of preliminary results includes information which has been extracted directly from the Glas Cymru Holdings Cyfyngedig Annual Report and Accounts for the year ended 31 March 2019.

The audited Annual Report and Accounts will be put to Members for approval at the Glas Cymru Holdings Cyfyngedig Annual General Meeting on 5 July 2019. The Annual Report and Accounts will be made available online at dwrcymru.com shortly afterwards.

The financial information does not constitute statutory accounts within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards (IFRS). The Company's auditors, KPMG LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2019. The auditors' report did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. The consolidated financial statements will be filed with the Registrar of Companies, subject to their approval by the Company's Members on 5 July 2019 at the Company's Annual General Meeting.

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

CHAIR OF THE BOARD'S MESSAGE

SERVING OUR CUSTOMERS AND THEIR COMMUNITIES

This last year for Welsh Water has been dominated by two things: the weather and preparation for the next regulatory price control – PR19. These have both placed huge demands on the business to which everyone has responded fantastically for which my very sincere thanks on behalf of the Board.

THE WEATHER

Hard on the heels of Storm Emma, which was the backdrop to my last Chairman's statement, came the summer's drought to be followed in relatively quick succession in October by Storm Callum. The drought was more severe in terms of impact on river levels than that of 1976 when we had standpipes in the streets of Cardiff, and was the longest since 1910. Storm Callum brought more rainfall to Wales in a weekend than we had had in the previous four months – some places recorded this as a 1-in-250-year storm.

Despite the severity of the summer's drought, we were able to maintain normal supply without restrictions across our supply area, although achieving that was not without significant human and financial cost. Water is particularly precious during drought and we significantly increased our focus on detecting and fixing leaks. We undertook an additional 103 investment projects over the summer to alleviate the drought, such as creating connections between distinct supply areas.

The drought also had a material impact on the waste side of the business, as blockages increased with low sewer flows while effluent was much more concentrated. The threat of pollution also increased with much reduced river flows and, in the case of some streams into which we discharge from small rural treatment plants, these river flows became almost non-existent.

Storm Callum which followed the drought saw the River Tywi in Carmarthen rise by almost a metre above its previously highest recorded level and our Talybont reservoir in the Brecon Beacons added 30% to its storage in 48 hours.

The total additional weather related cost incurred over the year was £21m.

PR19

Teams from across all parts of the business spent large parts of last year compiling the 2,000 pages of plans and over 100 data tables with about 100,000 cells of data that formed our proposals to Ofwat for the 2020-25 price control period and in outline for the subsequent ten years. These plans were developed in the context of our Welsh Water 2050 strategy. This set out 18 strategic responses to the key challenges posed by the future trends facing the industry over the next 30 years which may impact our ability to deliver against our six fundamental customer promises:

- Clean, safe, drinking water for all
- Safeguard our environment for future generations
- Put things right if they go wrong
- Personal service that's right for you
- A better future for all our communities
- Fair bills for everyone.

In Welsh Water 2050 we set out the outcomes we need to deliver, the actions we need to take and the investments we we need to make to mitigate each of the strategic challenges to our business, to meet our customer promises and to deliver the goals of the Well-being of Future Generations Act. This then provided a framework for our detailed business plan which has sought to balance ensuring the affordability of an essential utility with the investment needed to maintain a resilient infrastructure in the face of increasingly challenging climatic conditions, heightened customer expectations, and ageing assets.

Hence we plan to pass on to our customers, as 5% lower bills, the benefit of the reduced cost of capital resulting from a lower interest rate environment than existed for PR14. At the same time we intend to drive efficiencies across the business in order to pay for the increased investment needed to deliver our long-term plans for the business. We have scoped in detail how we are going to save £250m in total expenditure across the five years of the price control.

This makes it possible for us to submit a plan for investment of £2.3 billion over the next AMP, up from £2 billion total investment in the current price control, enabling us in particular to strengthen the Company's resilience to future extreme events stemming from climate change such as we have experienced over the last year. Examples of this are enabling our dams and reservoirs to cope with more intense storms, making permanent some of the temporary connectivity between supply zones established during the drought, and creating RainScape Sustainable Urban Drainage schemes in ten catchments.

While we were disappointed to have been categorised by Ofwat as slow-track in their initial assessment of our plans for PR19, we were pleased to have had our plans scored as high quality for the way we had engaged with our customers and how the plans address vulnerability and affordability. Since the initial assessment at the end of January, we have worked very hard to provide appropriate further support and justification in the areas over which Ofwat raised queries. The issues primarily related to aspects of the scope of our plans as set out above to invest significantly over the AMP to enhance the quality and resilience of our service to customers. Our customer engagement showed very strong support for our business plan, with 92% of customers finding it acceptable and 95% saying that it is affordable. At the time of writing we are still in dialogue with Ofwat about the proposals we have made, and we are continuing to seek Ofwat's acceptance of our plan as being in the best long-term interests of our customers.

When it comes to ensuring water sufficiency and quality, we believe strongly in the appropriateness of a Source to Tap integrated strategy and that this starts with catchment management, improving, in partnership with other landowners and stakeholders, the quality of catchments where the water originates – we plan to action such catchment management schemes across all our catchments in the next AMP. We, therefore, welcome the proposals put forward by the Welsh Government last year in its consultation "Brexit and our Land: Securing the Future of Welsh Farming" to provide a new income stream for land managers in exchange for their making a significant contribution to addressing the challenges of climate change and poor water quality, amongst others.

BREXIT

For the UK as a whole the last year has, of course, been dominated by Brexit and the Company committed much time and effort to assessing its potential impact, in particular that of a "No Deal" Brexit on the unrestricted supply of chemicals used in treatment processes. We were very pleased to be able to make a material contribution to UK-wide planning by Peter Perry, our Managing Director, playing a leading role in the Water UK industry's taskforce in consultation with the UK and Welsh Governments, and regulators.

PERFORMANCE ACROSS THE YEAR

Despite the best efforts of our teams the weather-related disruption had its impact on business-as-usual. The ground movement associated with the drought caused a higher than expected number of trunk main bursts, while our drive to achieve our target for customer acceptability of water supplied was impacted by the combination of higher demand on the system and diverting resources from our mains rehabilitation programme to support the leakage mitigation work. Given this, it was a great result to still hit our leakage target for the year despite all the disruption. Overall Welsh Water remained the most trusted water company in the CCWater July 2018 survey with 96% customer satisfaction with the water we supply. We were, however, disappointed to suffer a number of serious pollution incidents with disparate causes, some of them due to human error and, therefore, preventable. We have taken the learning from these incidents on board and made the appropriate changes to our processes and safeguards.

We are already running at the level of capital programme spend that we are planning for AMP7, the last year out-turning with an investment of £452m. This includes innovative schemes such as our RainScape solution in Llanelli and industry-first engineering solutions to complex problems such as replacing valves at the base of dams. As evidence of our employment of innovative approaches, these required the design of an underwater robot to seal the wet side of the scour pipes to allow the dry side replacement work to be undertaken. The successful achievement of this substantial programme of work is testament to the sterling effort, commitment, and ingenuity of both our in-house capital team and our Capital Alliance partners.

VULNERABILITY AND AFFORDABILITY

In November we launched our Vulnerable Customers Strategy at which we explained how we propose to increase our identified population of customers in vulnerable circumstances and what we intend to do to help them during such periods of vulnerability whatever the circumstances that cause these issues in the first place. Currently we provide financial support to over 125,000 customers – of whom 78,000 are on our HelpU tariff. Taking into account the relative size of our customer base we help substantially more of our customers than other water companies.

By 2025 we expect to be providing financial support to up to 150,000 customers who are struggling financially. This reflects customer feedback as to the level of support they are prepared to underwrite, and what are inevitably limited resources for the Company itself to contribute from Return of Value (our equivalent of dividends to Shareholders).

REMUNERATION POLICY

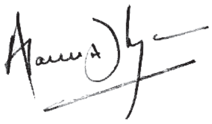
As Anna Walker, our Chair of Remuneration Committee, comments in her report it has also been a busy year for this Committee as it has sought to construct the appropriate remuneration policy to put to the forthcoming AGM to recruit and retain the executive talent we need and incentivise the achievement of our objectives for the next AMP.

We are very conscious that Welsh Water is different to shareholder-owned companies and that executives of other not-for-profit businesses have lower remuneration than in their shareholder-owned equivalents. We are also deeply conscious that we have to manage all our costs as carefully as we can to keep bills as affordable as possible against a backdrop of a higher-than-average level of financial vulnerability in Wales. However, the market for senior executive talent in the UK water industry is narrow, in high demand, and UK-wide rather than national.

Our Executive remuneration must, therefore, remain fair and competitive and Anna Walker's report as Chair of the Remuneration Committee outlines the nature of the proposals we will be putting to our Members for approval at the 2020 AGM.

THANK YOU

In conclusion, I want to offer my grateful thanks to my colleagues on the Board for their support and guidance through a demanding year, to our executive team for all they have achieved in addressing the challenges thrown at them, to all our partners without whose support we could not achieve what we set out to, but above all to our people for their unfailing commitment and willingness to go the extra mile for our customers.



Alastair Lyons CBE
Chair of the Board

6 June 2019

CHIEF EXECUTIVE'S MESSAGE

WELSH WATER'S PURPOSE IS TO PROVIDE HIGH QUALITY AND BETTER VALUE DRINKING WATER AND ENVIRONMENTAL SERVICES, SO AS TO ENHANCE THE WELL-BEING OF OUR CUSTOMERS AND THE COMMUNITIES WE SERVE, BOTH NOW AND FOR GENERATIONS TO COME

It is now nearly 20 years since Glas Cymru Cyf. was first formed (April 2000). The Glas Group is highly unusual in that its purpose (the "why") came before the "how". As founding Directors, we then had a unique opportunity to design the ownership structure and governance of the Company to best deliver that purpose. The Company was created for one reason only: to acquire Dŵr Cymru Welsh Water, which was achieved in May 2001, and then to run it "better" for the benefit of its customers.

Glas Cymru was created in the strong belief that a company with a clear, single purpose, and a corporate form to match, would be a better way to provide essential water services to the people and communities we serve – better than what had gone before and better than under other, more common ownership models.

The particular non-shareholder ownership model chosen (a company Limited by Guarantee) aims to have the best of both worlds – it combines the commercial rigour and discipline of being a corporate entity, with access to competitively priced finance through the listed bond market, while having a single focus on acting in the best interests of its customers.

Without the risk of any short-term shareholder pressure to maximise dividends, diversify its activities or divest itself of assets, the Company is able to take a longer term perspective. From the outset, the business was designed to be just as driven as a shareholder-owned company to improve efficiency and to act commercially at all times. However, in our case, the resulting "upside" goes to our customers and is used for their benefit through the "Return of Value", such as lower customer bills or additional investment in service resilience.

The role of the independently selected Membership of the Company also reflects its purpose. Members carry out important corporate governance roles, helping to ensure that the Company stays true to its purpose and performs well for its customers. However, Members do not have any financial interest in the business and, while they are representative of the people we serve, they do not represent outside interests – their only duty is to the Company itself. This enables them to focus best on their governance role and the interests of the business as a whole. I'm extremely grateful to our Members for their efforts over the years which have been instrumental in the success of the Company.

OUR VISION AND CULTURE

Our simple vision, which applies to all colleagues, across the business, is "to earn the trust of our customers every day".

This vision is reinforced by our strong culture of being "trusted to do the right thing" and our other values of being:

- PROUD to put our customers first
- SAFE at all times
- achieving EXCELLENCE in everything we do
- HONEST with everyone
- OPEN to new ideas

Our not-for-shareholder corporate structure has significant advantages for how we run the business and how we plan for the future. It enables us to focus on our long-term mission to build customer trust and support, and to motivate our people to provide excellent customer service and environmental protection.

Our long-term perspective is especially important because we are custodians of the assets of the business for future customers. Last year we launched our Welsh Water 2050 Strategy. Developing this has allowed us to examine the role we play in the communities we serve and to have a meaningful dialogue with our customers about how we will meet the long-term challenges.

THE SEVEN WELL-BEING GOALS

We are very conscious of our wider impact on the communities we serve. Although Welsh Water is not a public sector body and does not fall within the scope of the Well-being of Future Generations (Wales) Act 2015, we have developed our approach in Welsh Water 2050 in close alignment with the seven well-being goals which are at the heart of the Act, which we consider are equally as desirable for our customers in England as those in Wales. Welsh Water aims to play a significant role in achieving these goals as well as contributing to addressing the risks and opportunities outlined in Natural Resources Wales' State of Natural Resources Report.

We have aligned our 2050 planning with the seven well-being outcomes which are at the heart of the Act:

- A prosperous Wales – we support economic development in our work with developer customers. We have listened to feedback from developers and created an industry-first guaranteed standards of service scheme.
- A resilient Wales – we are planning for the longer term and have taken particular account of the impact of climate change when putting together our investment plans for 2020-25.
- A more equal Wales – we have recently launched our strategy for improving services to customers in vulnerable circumstances, working with third parties to share information to ensure we can provide additional support.
- A healthier Wales – we are encouraging more visitors to visit our Visitor and Recreation Centres and to take part in activities on our estates.
- A Wales of cohesive communities – our Rhonnda Fach project has worked with community groups to ensure a lasting positive social impact from our major mains replacement scheme in the area.
- A Wales of vibrant culture and Welsh language – we are supporting Welsh language learning for our employees and setting targets to promote our Welsh language services for customers.
- A globally more responsible Wales – we are using innovation to find ways to lessen our impact on the environment, notably through our investment in renewable energy.

2018-19: A YEAR OF EXTREMES

The past year has thrown our long-term planning into sharp focus with a series of severe weather events which has placed great pressure on our operational teams to maintain supplies to customers. Shortly after the "Beast from the East" and Storm Emma caused severe disruption for some rural communities we serve, we then experienced the most prolonged dry spell in Wales in decades – with June registering as the hottest June since records began in 1910, while July was the third-hottest ever.

This placed huge pressure on our water resources – meaning our operational teams had to redouble their efforts to move water around our network to maintain supplies to all customers. This meant putting around 1 billion litres of water (a 20% increase) into the network every day to make sure customers' supplies were kept as normal during the hotter weather. Our employees worked around the clock at our 63 water treatment works to monitor the network, while we also built temporary pumping stations to help transfer water and used 40 tankers to put extra water directly into the network. Additional costs of £21m were incurred during this period of low rainfall.

The circumstances that led to us taking these measures were unprecedented and showed the severity of the challenge that faces us in future, underlining the importance of our investment in building the resilience of our assets. Our investment will total nearly £2bn over the current five year investment period.

The lengthy period of low rainfall also caused additional challenges for the wastewater business, with discharges from combined sewer overflows having potentially greater environmental impact where watercourses are at lower levels than usual. During the summer months, while carrying out urgent work designed to protect service to customers and the ecological quality of rivers, we experienced two serious pollution incidents – one at our Five Fords Energy Park in Wrexham and the other at Felindre Water Treatment Works in Swansea. In both cases there was an impact on the watercourse where the discharge took place, including some fish kill. We quickly apologised for these incidents – both were caused in part by human error and were therefore avoidable. We have undertaken an extensive clean-up exercise, contributed to restocking of the rivers affected, and carried out thorough internal reviews in order to learn the lessons to help stop this happening again.

These climatic challenges continued into the autumn, Storm Callum bringing some of the worst flooding seen in Wales in decades, with particularly heavy rainfall in Carmarthenshire, Ceredigion and parts of mid Wales. For instance, we saw more than 18cm of rainfall in 48 hours in parts of the Brecon Beacons. Local and national press coverage of the storm noted the success of our award-winning RainScape Sustainable Drainage schemes in preventing flooding in the town of Llanelli, where flooding was avoided as a result of these drainage schemes diverting water away from the sewer system and protecting customers' homes and the environment. This is the type of innovative solution we will need in order to meet the challenge of climate change.

OUR RETURN OF VALUE TO CUSTOMERS

Our ownership structure allows us to use the surpluses we generate for the benefit of our customers, rather than paying them out as dividends to shareholders. In 2018-19 we announced a "Return of Value" to customers of £40m. Since Glas Cymru acquired Welsh Water in May 2001 we have applied approximately £400m for the benefit of customers in this way, through reduced bills, accelerated or additional investment to improve services, or targeted financial assistance to those in financial need.

OUR PLANS FOR 2020-25

After two years of extensive consultation with customers and other stakeholder groups, we submitted a business plan in September 2018 to Ofwat which reflected our ambitions for our customers in the five years from 2020. The result of our consultation and planning process was: a proposed 5% reduction in the average household bill, a raft of measures to improve the services received by customers, more support for the most vulnerable customers, and a record £2.3 billion of capital investment.

The process was the culmination of our biggest ever consultation exercise with our customers. Throughout the process of drafting our plans for PR19, we directly consulted with around 40,000 customers over two years, through a range of means such as focus groups, community-based workshops, stakeholder events, our first "online community", our first-ever "Youth Board", and the major Have Your Say consultations. Independent research into the overall acceptability of the plan for customers showed 92% of our customers found the plan acceptable and 95% found it affordable. Our Customer Challenge Group, chaired by Peter Davies CBE, also played a key role in shaping the content of our plan.

At the end of January 2019, Ofwat issued its Initial Assessment of all Company plans. They noted in particular the scale of customer involvement in shaping our business plan and the ambitious ideas to support our most vulnerable customers, both with financial assistance for those who really struggle to pay their water bills and through extending the Priority Services Register which ensures we can meet the specific needs of customers in vulnerable circumstances.

We have responded with further information to support the need for specific aspects of our proposed investment programme which Ofwat had questioned in its Initial Assessment. Ofwat will publish a Draft Determination in July 2019.

POLITICAL BACKDROP

At the time of writing, the UK's future relationship with the European Union is unclear and there is significant concern in the business community of the impact of a "No Deal" Brexit. We have played a leading role in extensive planning by the water sector for a variety of Brexit scenarios, particularly as regards continuity of essential supplies such as chemicals used in water treatment.

We are also aware that there is considerable political debate around the future ownership of the water industry in England. While this is a matter for government to determine, we remain of the strong view that our current ownership model has significant advantages for our ability to deliver essential services to our customers and communities.

INNOVATION

A big part of our PR19 planning has been embedding innovation into everything that we do, and ensuring innovation extends to all areas of the Company. This will ensure that our customers benefit from the widest range of ideas possible, and that we find newer and better ways of delivering services which improve our customers' experience and help us to reduce costs.

It was very encouraging to see the range of innovations on display at our annual Innovation Conference in April 2018, showcasing areas such as Augmented Reality, our first-ever bilingual chatbot, and our use of drone technology to assist in maintaining the resilience and safety of our assets. Use of such innovative technological solutions needs to be embedded into our way of working to ensure we meet the ambitious targets for the next regulatory period.

An example of our use of innovation to improve our processes is the Peak Flow treatment we have introduced at our Gowerton Wastewater Treatment Works. This uses innovative technology from the US to treat storm water. As part of our innovation agenda we have also worked with a number of overseas companies including the Greater Copenhagen Utility (HORFOR), New York City Department of Environmental Protection, New York City Water Board and Queensland Urban Utilities.

CONCLUSION

During the challenging year we have just seen, the dedication of our colleagues and our contractor partners is more evident than ever – with people across the business working around the clock to ensure our customers' services remained uninterrupted, despite the sustained period of dry weather in the summer, significant trunk main bursts on our network, and volatile weather events like Storm Callum. Their dedication has contributed directly to the high level of trust our customers show in us as their water company. I am proud to say that our customers trust us more than ever – and more than any other water company in England and Wales. Independent research from the Consumer Council for Water (CCWater) shows we are the most trusted in the industry.

Meeting our customers' high expectations of us and the services we provide will continue to present us with new problems and challenges to address. Our clear sense of purpose, our strong culture and our thorough preparations through Welsh Water 2050 will stand us in good stead to respond to those challenges.

C. A. Jones

Chris Jones
Chief Executive
6 June 2019

FINANCE DIRECTORS' REPORT

FINANCIAL PERFORMANCE

The Group is in a strong financial position as at 31 March 2019; gearing remains low at 58% (2017-18: 57%) and we have retained our sector-leading credit ratings.

REVENUE

Glas Cymru's turnover in the year to 31 March 2019 rose slightly to £782m (2018: £757m). A price increase of 2.0% in line with Ofwat's PR14 Final Determination and increased consumption during a hot, dry summer of 2018 have been partially offset by reduced revenues due to a higher number of customers benefiting from subsidised tariffs.

OPERATIONAL ITEMS

Glas Cymru incurred total operational costs (excluding infrastructure renewals expenditure on maintaining our underground pipe network and depreciation) of £336m (2018: £319m). A number of specific cost increases (costs relating to the atypical summer weather: employment, power and network leakage) have been partially offset by the lower cost of renegotiated IT contracts, lower business rates and a reduction in the bad debt charge.

All water and sewerage companies use a lot of power for treatment and pumping processes. The undulating topography across Wales makes this a particular challenge for us. Power costs during 2018-19 were £46m (2018: £43m).

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 next AMP to 2025.

Water and sewerage companies are not permitted to disconnect supplies to non-paying domestic customers, and despite a focus on other means of recovery, 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, for the fourth year in a row, to £21m (2018: £22m). 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 6,000 orders secured over £11m of our customers' debt as at 31 March 2019.

FINANCING COSTS

Net interest payable of £164m (excluding accounting gains or losses on derivatives noted below) was £8m lower than the previous year, primarily as a result of lower Retail Prices Index inflation.

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 IFRS9. Changes in market values create volatility in the income statement and fair value losses in 2018-19 amounted to £29m (2018: gains of £80m). There is, however, no impact on cash flows: the Group intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such gains and losses will revert to zero.

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 £0.3m has been generated from the surrender of tax losses relating to our investment in energy efficient capital expenditure under a Government-approved scheme. The Company has also claimed a tax credit of £0.5m under the Government's Research & Development Expenditure Credit (RDEC) initiative, which has been included within operating expenditure.

The total tax credit in the income statement was £20.8m (2018: £2.6m credit). There was a small tax credit of £0.1m relating to prior periods. If this is excluded from the total tax credit of £20.8m then the effective rate for the year is 16.7% (2018: 16.9%).

LOSS BEFORE TAX

The consolidated income statement shows a loss before taxation of £124m (2018: loss of £15m) which takes into account the variances discussed above, including inflation and fair value movements. Operating profit has fallen from £75m last year to £69m; while infrastructure renewals expenditure has remained steady, in line with continued high levels of capital investment. Depreciation is £17m higher than the prior year principally due to the revaluation of fixed assets.

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 policymaking 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 every year since the inception of the Business Risk Review process in 2009. This is due for review during the year ending 31 March 2020, and we expect to maintain the current classification.

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 provide enhanced disclosures in order to give a clear and balanced view of our tax affairs.

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 3,500 people and playing an important role in the regional economy.

PENSION FUNDING

The statement of comprehensive income reports a defined benefit pension scheme actuarial loss of £20m (2018: gain of £12m) and the balance sheet liability as at 31 March 2019 was £96m (2018: £80m). 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 will be completed later in the year. As at 31 March 2016, the actuarial valuation projected a deficit, recoverable by payments of £7m per annum until 2019 and then £3m per annum until 2030. Exposure to any significant additional future liabilities was mitigated by the closure of the majority of sections of the scheme with effect from 1 April 2017.

FINANCIAL PERFORMANCE

The consolidated balance sheet shows net assets of £1,234m at 31 March 2019 (2018: £1,244m). Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £1,660m (2018: assets of £1,641m).

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 2019 have been prepared on the going concern basis.

DIVIDEND POLICY – APPOINTED BUSINESS (DŴR CYMRU CYFYNGEDIG)

In March 2016 the Glas Board approved a Dividend Policy to enable up to £100m of funds to be paid intra-Group, outside the regulatory ringfence, in order to enable the funding of commercial projects. No dividends were declared or paid during the year ended 31 March 2019 (2018: none).

RETURN OF VALUE "DIVIDEND" TO CUSTOMERS

Our corporate structure enables all surpluses to be applied for the benefit of customers. Since 2001, Glas Cymru has applied £400m in total for the benefit of customers. These distributions abide by the restrictions which would apply to payment of dividends in a shareholder-owned structure. Accordingly, Return of Value in 2018-19 was set at £40m in total. This ensured that the gearing target could be maintained at just below 60% in 2020, to preserve a strong credit rating and financial resilience for the longer-term benefit of customers. It takes account of known and expected costs and also of the Group's pension funding position (including commitments to contribute to deficit payments).

CAPITAL INVESTMENT

Glas Cymru's strong financial position has been built up over the last 18 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 contracting 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 £452m (2018: £415m).

CREDIT RATING AND INTEREST RATE MANAGEMENT

Glas Cymru has the strongest credit ratings in the UK water sector, reflecting the Group's high level of creditworthiness. The ratings of the Group's Class A and B debt at 31 March 2019 were A/A2/A from Standard & Poor's (S&P), Moody's and Fitch Ratings respectively. However, the ratings from S&P and Moody's are currently on negative outlook.

As at 31 March 2019, approximately 60% of gross debt was index-linked via bonds and derivatives (2018: 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 AMP7 and beyond.

LIQUIDITY AND FINANCIAL RESERVES

Glas Cymru aims to offer a secure, low-risk investment to debt 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 had fallen to 58% by 31 March 2019 (2018: 57%) and "customer reserves" (RCV less net debt) were £2.4 billion (2018: £2.4 billion). As at 31 March 2019, the Group had available total liquidity of £532m, including cash balances of £362m.

EVENTS AFTER THE FINANCIAL YEAR END

There have been no post balance sheet events.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

Continuing activities	2019 £m	2018 £m
Revenue	**781.6**	756.7
Operating costs:		
Operational expenditure	**(336.0)**	(319.0)
Infrastructure renewals expenditure	**(83.9)**	(86.0)
Depreciation and amortisation	**(293.0)**	(276.3)
	(712.9)	(681.3)
Operating profit	**68.7**	75.4
Profit on disposal of fixed assets	**0.2**	1.8
Profit before interest	**68.9**	77.2
Financial expenses:		
Financial income	**5.0**	3.9
Financial expenses	**(168.6)**	(175.9)
Fair value (losses)/gains on derivative financial instruments	**(29.2)**	80.0
	(192.8)	(92.0)
Loss before taxation	**(123.9)**	(14.8)
Taxation	**20.8**	2.6
Loss for the year	**(103.1)**	(12.2)

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present the parent Company's income statement. The profit of the parent Company for the year to 31 March 2019 was £1.1m (2018: £0.3m).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	2019 £m	2018 £m
Loss for the year	**(103.1)**	(12.2)
Items that will not be reclassified to profit or loss		
Actuarial (loss)/gain recognised in the pension scheme	**(19.9)**	12.2
Related deferred tax	**2.6**	(2.8)
Revaluation of property, plant and equipment	**132.2**	158.1
Related deferred tax	**(22.5)**	(26.9)
Total items that will not be reclassified to profit or loss	**92.4**	140.6
Total comprehensive (loss)/income for the year	**(10.7)**	128.4

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2019

	Revaluation reserve £m	Retained earnings £m	Total reserves £m
At 1 April 2017	1,069.1	46.8	**1,115.9**
Loss for the year	–	(12.2)	**(12.2)**
Actuarial gain net of tax	–	9.4	**9.4**
Revaluation net of tax	131.2	–	**131.2**
Transfer to retained earnings	(57.5)	57.5	**–**
At 31 March 2018	1,142.8	101.5	**1,244.3**
Loss for the year	–	(103.1)	**(103.1)**
Actuarial loss net of tax	–	(17.3)	**(17.3)**
Revaluation net of tax	109.7	–	**109.7**
Transfer to retained earnings	(63.0)	63.0	**–**
At 31 March 2019	**1,189.5**	**44.1**	**1,233.6**

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2019

	2019 £m	2018 £m
Assets		
Non-current assets		
Property, plant and equipment	**5,536.7**	5,312.1
Intangible assets	**175.1**	146.3
Trade and other receivables	**0.9**	0.9
Other financial assets:		
derivative financial instruments	**3.8**	1.9
	5,716.5	5,461.2
Current assets		
Inventories	**4.0**	3.2
Trade and other receivables	**573.5**	577.7
Cash and cash equivalents	**501.1**	288.5
Other financial assets:		
derivative financial instruments	**4.6**	6.4
	1,083.2	875.8
Total assets	**6,799.7**	6,337.0
Liabilities		
Current liabilities		
Trade and other payables	**(558.2)**	(564.1)
Provisions	**(4.0)**	(2.4)
Other financial liabilities:		
– borrowings	**(195.4)**	(41.5)
– derivative financial instruments	**(27.7)**	(29.2)
	(785.3)	(637.2)
Net current assets	**297.9**	238.6
Non-current liabilities		
Trade and other payables	**(264.7)**	(233.9)
Employee benefits	**(96.2)**	(80.4)
Provisions	**(2.6)**	(6.5)
Other financial liabilities:		
– borrowings	**(3,570.3)**	(3,317.3)
– derivative financial instruments	**(406.9)**	(376.2)
Deferred tax – net	**(440.1)**	(441.2)
	(4,780.8)	(4,455.5)
Total liabilities	**(5,566.1)**	(5,092.7)
Net assets	**1,233.6**	1,244.3
Reserves		
Revaluation reserve	**1,189.5**	1,142.8
Retained earnings	**44.1**	101.5
Total reserves	**1,233.6**	1,244.3

C.A. Jones

P Bridgewater

C A Jones
Chief Executive

P J Bridgewater
Finance and Commercial Director

PARENT COMPANY BALANCE SHEET AS AT 31 MARCH 2019

	2019 £m	2018 £m
Assets		
Non-current assets		
Investment in subsidiaries	**3,833.5**	3,398.1
Other financial assets:		
– loans to group undertakings	**21.6**	21.6
	3,855.1	3,419.7
Current assets		
Trade and other receivables	**1.3**	0.2
Cash and cash equivalents	**8.6**	8.6
	9.9	8.8
Net assets	**3,865.0**	3,428.5
Reserves		
Retained earnings	**31.6**	30.5
Revaluation reserve	**3,833.4**	3,398.0
Total reserves	**3,865.0**	3,428.5

PARENT COMPANY STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2019

	Revaluation reserve £m	Retained earnings £m	Total reserves £m
At 1 April 2017	**3,228.5**	**30.2**	**3,258.7**
Profit for the year	**–**	**0.3**	**0.3**
Revaluation	**169.5**	**–**	**169.5**
At 31 March 2018	**3,398.0**	**30.5**	**3,428.5**
Profit for the year	**–**	**1.1**	**1.1**
Revaluation	**435.4**	**–**	**435.4**
At 31 March 2019	**3,833.4**	**31.6**	**3,865.0**

C A Jones
Chief Executive

P J Bridgewater
Finance and Commercial Director

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

	2019 £m	2018 £m
Cash flow from operating activities		
Cash generated from operations	**361.0**	347.5
Interest paid	**(132.7)**	(132.9)
Income tax received	**0.5**	0.4
Net cash flow from operating activities	**228.8**	215.0
Cash flow from investing activities		
Interest received	**4.9**	3.8
Acquisition of subsidiaries	**–**	(0.5)
Purchase of property, plant and equipment	**(354.5)**	(302.6)
Purchase of intangible assets	**(48.5)**	(48.5)
Proceeds from sale of plant and equipment	**0.9**	2.5
Grants and contributions received	**19.3**	11.4
Net cash outflow from investing activities	**(377.9)**	(333.9)
Net cash flow before financing activities	**(149.1)**	(118.9)
Cash flows from financing activities		
Repayment of borrowings	**–**	(18.2)
Increase in borrowings	**134.2**	–
Bond issue	**–**	300.0
Bond issue costs	**–**	(3.5)
Long-term loans received	**250.0**	60.0
Term loan repayments	**(21.6)**	(21.6)
Finance lease principal payments	**(0.9)**	(9.8)
Other loan repayments	**–**	(0.1)
Net cash flow from financing activities	**361.7**	306.8
Increase in cash and cash equivalents	**212.6**	187.9
Cash and cash equivalents at 1 April	**288.5**	100.6
Cash and cash equivalents at 31 March	**501.1**	288.5

PARENT COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

	2019 £m	2018 £m
Cash flow from investing activities		
Interest received	**–**	0.1
Long-term loan to subsidiary	**–**	(21.6)
Net cash flow from investing activities	**–**	(21.5)
Net decrease in cash and cash equivalents	**–**	(21.5)
Cash and cash equivalents at 1 April	**8.6**	30.1
Cash and cash equivalents at 31 March	**8.6**	8.6