GLAS CYMRU

REPORT & ACCOUNTS 2018-2019

WE WILL EARN THE TRUST OF OUR CUSTOMERS EVERY DAY

GETTING AROUND OUR REPORT

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DEFINED IN THE GLOSSARY ON PAGE 168.

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"DESPITE THE SEVERITY OF THE SUMMER'S DROUGHT, WE WERE ABLE TO MAINTAIN SUPPLY WITHOUT RESTRICTIONS"

ALASTAIR LYONS
CHAIR OF THE BOARD

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 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

TOTAL WEATHER RELATED COSTS
£21m

CUSTOMER SATISFACTION
96% (Consumer Council for Water score)

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CHAIR OF THE BOARD'S MESSAGE CONTINUED

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.

Chairman Alastair Lyons (right) at Castell Nos dam

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.

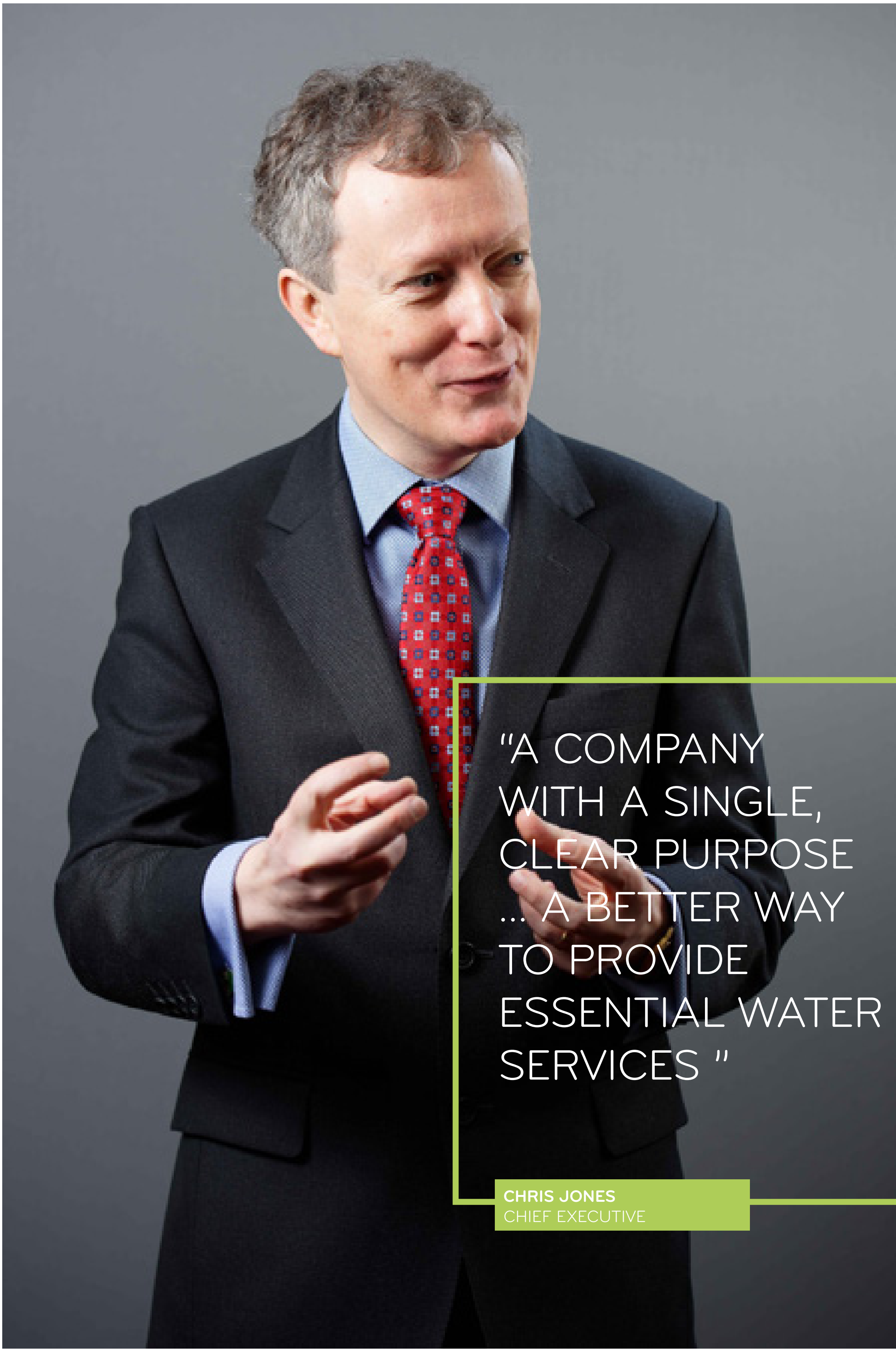
Alastair Lyons CBE
Chair of the Board

6 June 2019

STRATEGIC REPORT

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

SERVING OUR CUSTOMERS AND COMMUNITIES



"A COMPANY WITH A SINGLE, CLEAR PURPOSE ... A BETTER WAY TO PROVIDE ESSENTIAL WATER SERVICES "

CHRIS JONES
CHIEF EXECUTIVE

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[1] 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 and also 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.

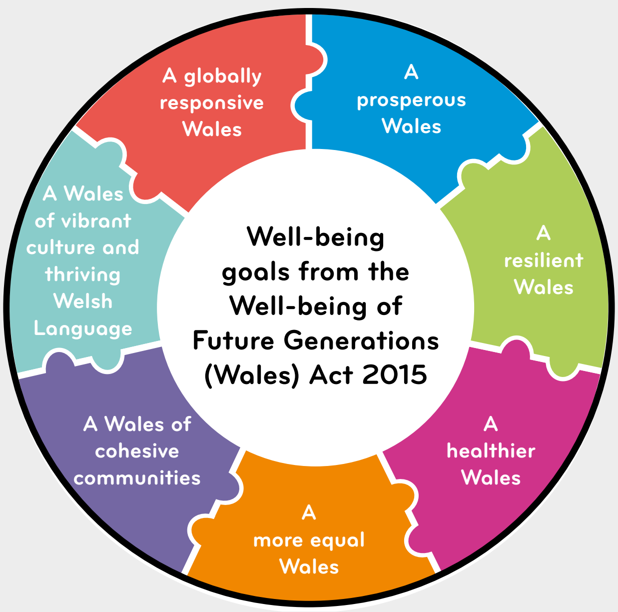
Our long term perspective is especially important because we are custodians of the assets of the business for future customers. Last year we launched our Welsh Water 2050 Strategy. Developing this has allowed us to examine the role we play in the communities we serve and to have a meaningful dialogue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

1. "Glas" or "Glas Group" is used throughout this report to refer to the group of company subsidiaries of Glas Cymru Holdings Cyfyngedig, one of which is the regulated company Dŵr Cymru Cyfyngedig, referred to throughout as "Welsh Water".

CHIEF EXECUTIVE'S MESSAGE CONTINUED

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.



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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. (see page 17)
- 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. (see page 32)
- 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. (see page 35)
- A healthier Wales – we are encouraging more visitors to visit our Visitor and Recreation Centres and to take part in activities on our estates. (see pages 25 and 112)
- A Wales of cohesive communities – our Rhondda Fach project has worked with community groups to ensure a lasting positive social impact from our major mains replacement scheme in the area. (see page 37)
- 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. (see page 117)
- 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. (see page 114)

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 (see page 33 for more detail). This is the type of innovative solution we will need in order to meet the challenge of climate change.

CHIEF EXECUTIVE'S MESSAGE CONTINUED

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, details of which are set out on page 16. 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


Trainees at Cardiff Wastewater Treatment Works

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.

Chris Jones
Chief Executive

6 June 2019

BUSINESS MODEL

GLAS CYMRU CAME INTO BEING IN 2000 AS A COMPANY "LIMITED BY GUARANTEE".

WHO WE ARE

Being not-for-shareholder means that all gains go to customers. This has always been at the heart of what we do since Glas Cymru was formed in 2000. As a company "limited by guarantee", Glas Cymru was formed solely to acquire and run Dŵr Cymru Welsh Water on a not-for-shareholder basis.

This means we work differently from other water and wastewater companies. We don't pay dividends, as we don't have shareholders. So any money we make goes back into the business to benefit customers. It also means we can work to benefit our customers over the long term – we can plan our investments to ensure we aim to protect future generations from potential challenges like climate change, and take full advantage of potential opportunities – like using emerging new technology and data analysis.

This is what being a not-for-shareholder company means – at the centre of everything we do are our customers, and building and maintaining their trust in us to do that job is crucial to delivering the services that matter.

HOW WE DO IT

OUR PURPOSE:

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.

The Glas Group is focused on supporting the regulated operating company, Dŵr Cymru Cyfyngedig (referred to throughout this report as "Welsh Water"). In order to deliver our purpose, we:

- take water, treat it and distribute high-quality drinking water to our customers across most of Wales and Herefordshire
- collect, treat, and safely return wastewater to our rivers and seas – protecting public health and the environment across our supply area
- reuse our waste and convert it into energy that powers some of our sites
- provide support to members of the public, builders, local authorities and housing developers and engage as the first point of contact for pre-planning advice for new connections.

In doing all of the above, we aim continuously to improve our processes and to use innovation across our business to reduce cost and improve efficiency for our customers.

We are custodians, both of the physical assets that enable us to provide services and of the relationship of trust that has been built with our customers since Welsh Water was acquired by the Glas Group in 2001. This means that our business model is focused on long-term sustainability. By maintaining a relationship of trust with our customers and focusing on good operational performance and customer service, we can access capital funding at lower cost than other utilities and in turn, we can keep bill increases at a manageable level for our customers.

The virtuous circle below shows that as we continue to improve our services and reduce bills to customers, our reputation and financial ratings remain strong. This reduces the cost at which we can borrow money to invest further in improving our services and reduce bills. And so the virtuous circle goes on.

Our long-term planning for the business is illustrated by Welsh Water 2050, our response to the identified longer term challenges facing the business. Welsh Water 2050 sets out our long-term vision which will help us address the many challenges that lie ahead – from climate and demographic change to changing land use, the pace of technological change and also to increasing customer expectations.

> READ THE FULL AND CONDENSED VERSION OF WELSH WATER 2050 ONLINE AT: DWRCYMRU.COM/WW2050

We are also focused on developing the resilience and skills of our people to meet the future challenges we have identified in Welsh Water 2050. We focus on personal development of individuals across the business to enable every colleague to achieve their full potential. Our strong responses to our Employee Engagement Survey (see page 41) show how much colleagues value this approach, with 90% of those who responded confirming that they believe in Welsh Water and what it stands for.

Our business model is unique in the utilities sector. Our focus on customer benefits has enabled us to:

- keep average household bill price rises below the RPI rate of inflation for ten consecutive years
- maintain the best credit rating of any utility company in the UK, meaning we can borrow to invest in our services at the lowest price for customers
- support more than 125,000 low-income customers to pay their water bills
- generate added value for our household and business customers
- invest in our clean and wastewater assets to ensure we can continue to provide high quality services to our current and future customers.

BUSINESS MODEL CONTINUED

RETURN OF VALUE ANNOUNCEMENT – 2018

In June 2018 we announced an extra £40m of investment over the next year. We confirmed the investment as part of the "Return of Value", which sees investment going directly back into water and wastewater services for the benefit of our customers.

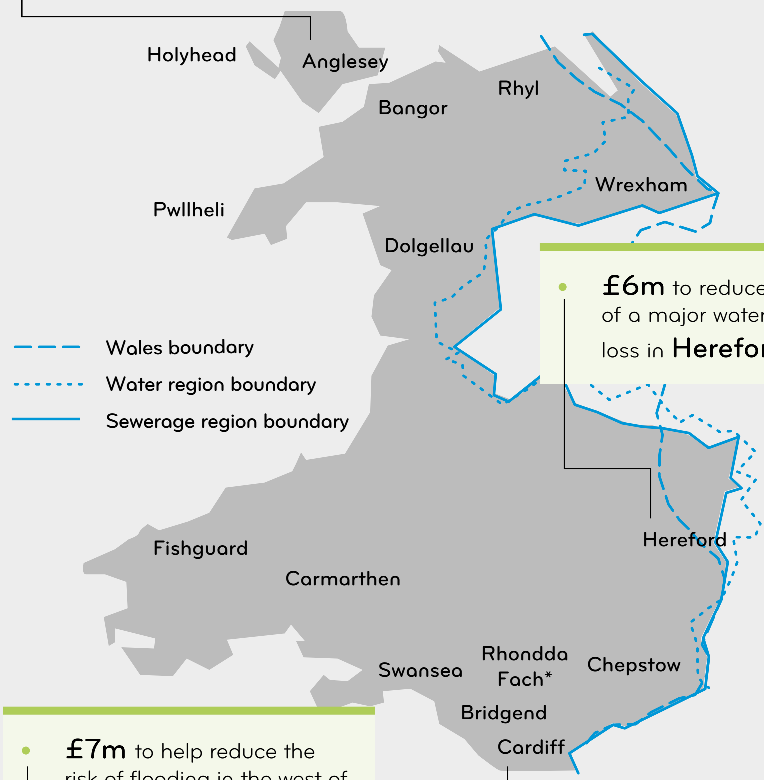
The £40m is being used to fund extra investment in projects to benefit customers across our supply area, including:

- £6m to reduce the risk of a major water supply loss in Hereford
- £7m to help reduce the risk of flooding in the west of Cardiff and Cardiff Bay
- £5m towards improving the reliability of our water network in areas that see repeated problems, including Rhondda Fach and Anglesey
- £9m investment to adapt our dams to meet the challenges of climate change
- £6m to improve our business systems – particularly improving customer service and making our operations more efficient
- £7m to help fund support for our lowest-earning customers to help pay their water bills.

Welsh Water has reinvested a total of around £400m in such customer projects since 2001.

INVESTMENTS ACROSS OUR SUPPLY AREA

- **£5m** towards improving the reliability of our water network in areas that see repeated problems, including **Rhondda Fach*** and **Anglesey**



- **£6m** to reduce the risk of a major water supply loss in **Hereford**

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- **£9m** investment to adapt our dams to meet the challenges of climate change

- **£6m** to improve our business systems – particularly improving customer service and making our operations more efficient

- **£7m** to help fund support for our lowest-earning customers to help pay their water bills

WHO DO WE SERVE?

HOUSEHOLD CUSTOMERS

We are the sixth largest of the eleven regulated water and wastewater companies in England and Wales, in terms of the population we serve. We provide water and wastewater services to more than 3 million people across most of Wales, Herefordshire, and parts of Deeside and Cheshire.

COMMERCIAL BUSINESS CUSTOMERS

We have a dedicated business customer team, both for business customers who are "in the market" for retail services for water (in Wales, only customers who use more than 50 megalitres per year at a single site can choose their water retailer), and for other business customers for whom we remain the monopoly provider. We are focused on providing a tailored service to our business customers which meets their needs, helps them manage their demand and provides additional services such as leak detection and network optimisation where the customer needs it. For 2018-19, we were ranked first amongst all providers of customer service in MOSL's Market Performance Standards, for business customers in the competitive retail market, with a score of 97.8%.

SERVICES TO DEVELOPERS

Research has shown Welsh Water – and our work with our supply chain – is worth around £1 billion annually to the Welsh economy.

We have an important role to play in supporting economic development across our supply area by providing new water and sewerage infrastructure and advice. We have a dedicated team for our housing and property developer customers, whether dealing with individual self-builds

or home improvements such as extensions or conservatories, or major new housing and commercial developments. Our team continues to be amongst the best industry performers since the WaterUK Developer Services Levels of Service were introduced in April 2015 and works exceptionally hard to meet the service levels for responding to queries and processing applications from all developer customers within definitive timescales. Our most recent developer customer survey, which was conducted independently, resulted in high levels of customer satisfaction at 86% and also trust levels at 87%. We were also the first company to voluntarily implement a "Developer Customer Services Commitment" and also a "Surface Water Incentive Scheme" specifically for developer customers.

Since January 2019, a change in legislation in Wales has required developers to incorporate sustainable drainage systems into all new developments, to separate rainwater from wastewater. We are working with developers to smooth the transition to these new arrangements.

LOOKING AHEAD TO 2025

As a customer-led company, we focus on delivering the best quality services possible, at the lowest-possible price.

When we plan for the future – whether it's over decades or over the next few years – taking into account our customers' views forms a central part of our way of working.

We plan our investments over five-year periods. Our latest draft business plan for 2020-2025 sets out our vision for improving services to benefit customers, and how we intend to pay for it through increasing efficiency while reducing customer bills. To gauge what our customers think of these plans, over the last two years we've been working with and listening to our customers about our plans for the future – and 40,000 customers have had a direct say on how we run their water and wastewater services.

WHAT DID WE DO?

We sought feedback from our customers across all the areas we serve to hear their views on what we should plan for the future – because, as a not-for-shareholder company, our customers' views are at the heart of everything we do.

So to get the best idea of what customers want to see in our business plan, we:

- Attended major events across Wales and Herefordshire (such as the Eisteddfod and Royal Welsh Show) to help customers "have their say" on our priorities for the future
- Developed innovative technological solutions to offer a wide choice to customers to input their views – including a world-first bilingual English-Welsh Facebook chatbot and a permanent "online community" customer focus group
- Carried out intensive focus groups and customer interviews to gain detailed insight into what customers value most

WHAT ARE OUR PLANS?

Our business plan for 2020-2025 maps out our proposals to meet customer priorities, including investing a record £2.3 billion over the five years to 2025, to supply customers with the best quality water, provide a safe and reliable wastewater service, and to protect the beautiful environment around us.

This will go hand in hand with making sure bills are fair and affordable.

OUR SIX CUSTOMER PROMISES FOR 2025

1 CLEAN, SAFE WATER FOR ALL

- ✔ Continue to invest in our network
- ✔ Replace old pipes in areas prone to regular bursts
- ✔ Replace old lead water pipes in around 7,000 homes
- ✔ Upgrade our dams so that they can withstand potential future storm conditions

2 SAFEGUARD THE ENVIRONMENT FOR FUTURE GENERATIONS

- ✔ Continue to invest in our network of sewers
- ✔ Replace old pipes in areas prone to regular bursts
- ✔ Work with others to lessen our impact on the environment and improve water quality
- ✔ Invest more in maintenance and technology to help reduce pollution incidents
- ✔ Produce a third of the energy we use from the sewage we treat, solar, hydro and wind power

3 WE'LL PUT THINGS RIGHT IF THEY GO WRONG

- ✔ Provide a free service to customers to fix leaking toilets and taps in their homes
- ✔ Continue to reduce leakage by a further 15%
- ✔ Invest more in our pipes and treatment works to withstand severe weather
- ✔ Reduce the number of customers who suffer repeated "hard to fix" problems

4 PERSONAL APPROACH THAT'S RIGHT FOR YOU

- ✔ Expand our digital services so you can contact us however you choose
- ✔ Increase the number of customers registered to receive services in Welsh
- ✔ Increase the number of people on our priority services register from 26,000 to over 100,000

5 A MORE SUSTAINABLE AND PROSPEROUS FUTURE FOR COMMUNITIES

- ✔ Expand our programme to teach more children about their water and environment
- ✔ Invest more in new and existing visitor centres across our area
- ✔ Reduce flooding in built up areas through clean, green RainScape solutions

6 FAIR BILLS FOR EVERYONE

- ✔ Increase the amount we invest in our water and environment
- ✔ Ensure the average household bill will be 5% lower than today (before inflation)
- ✔ Offer our reduced tariff to more of those customers who are genuinely struggling to pay their bill
- ✔ Reduce our costs by 10% by using innovation and technology to find better ways of doing things

WELSH WATER 2050

As a responsible water company, we know the decisions we make today have an impact on our customers now – and also for generations to come.

The water industry is facing a number of major challenges. These range from climate and demographic change to the pace of technological change and increasing customer expectations. We know our customers expect us to anticipate these future challenges to ensure we continue to provide them with a service they can trust.

So we need to plan for the long term – which is where Welsh Water 2050 comes in. We have set out 18 comprehensive responses to how we tackle each of the challenges we face over the next three decades, and how we will prioritise each. Welsh Water 2050 sets out our current thinking on how we should respond to these challenges enabling us to become a truly world class, resilient and sustainable water service for the benefit of future generations.

This long-term plan sits alongside our five-year investment plan for 2020-2025, which sets out what we intend to do as first steps towards realising this vision.

THE FIRST STEPS TO 2050

- **Renewing our water network:** Investing to clean and replace pipework in areas that experience more problems with their water service than normal
- **Environment:** Welsh Water was the first private company to produce a Biodiversity Action Plan in line with new legal requirements under the Environment (Wales) Act 2016 – meaning a Company-wide policy on protecting the world around our assets is already being embedded
- **Big Data:** We are working in areas of data science, business analysis, data engineering and statistics to improve the service we offer customers and to develop the ways we communicate with those most in need of support
- **Customer service:** We already support more customers than any other water company with our range of affordability tariffs and other forms of financial assistance for those who struggle to pay their water bills. We are aiming to quadruple the number of customers on our Priority Services Register. This is part of our new Strategy for Customers in Vulnerable Circumstances, which was launched formally in November at an event at the Swalec stadium in Cardiff. We also aim to quadruple the number of customers choosing to contact us in Welsh
- **Futureproofing:** With an ageing workforce, we're seeking to mentor a younger generation of talent to ensure we have the expertise to meet our customers' high expectations in future. Critical to this are our efforts to diversify our workforce – particularly in increasing the proportion of women working in the business, which has increased from 17% to 30% in the last ten years.

CASE STUDY

RHONDDA FACH

We have spent 18 months and £23m cleansing and renewing water pipes in the Rhondda Fach. The Rhondda Fach Water Resilient pilot programme was designed to maximise the benefit of our presence in the community – focusing key areas of our work on a comparatively small geographic area, with the intention of leaving the legacy of a "water resilient community".

Our work in the Maerdy-Porth zone involves laying 54km of new water mains in this area. This investment will address issues linked to the appearance, taste and odour of local drinking water supplies, as well as improving the reliability of the supply.

Engagement with the local community has been essential to explain what we are doing and manage customer expectations. However, this project has pushed us further by identifying areas where we can maximise the benefit we can bring to a community while investing in our own assets.

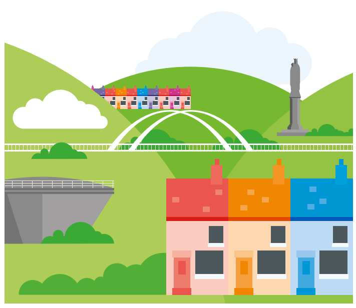
Among the benefits we sought were to influence customer behaviour through our "Let's Stop the Block" and water efficiency campaigns; and working with customers to understand the barriers they may face that prevent them from accessing one of our affordability tariffs, or registering for the Priority Service Register of vulnerable customers. We have also teamed with the Prince's Trust to offer work experience opportunities to young people from the area and we have supported the promotion of apprentices in construction.

We intend to continue our links with local community groups in the area to ensure we maintain a legacy of support. Peter Bridgewater, our Finance and Commercial Director, has been appointed a trustee of the Tylorstown Welfare Hall. This charity promotes and is renovating the last remaining miners' theatre and welfare hall in the Rhondda Fach. We have also initiated further similar projects alongside our investment programmes in the Rhyl and Rhymney areas, which have commenced during the year.

WE'VE HELPED CUSTOMERS SAVE OVER **£67,000** THROUGH **LOWER BILLS**

2,000 CHILDREN HAVE RECEIVED ONE OF OUR LESSONS

COMMUNITY GROUPS HAVE RECEIVED **£10,000** THROUGH OUR **COMMUNITY FUND**



REALITY OF CLIMATE CHANGE

Storm Callum flooding in Llandysul

One of our major challenges is to deal with the impact of long-term climate change on our ability to deliver consistently high-quality services. The impacts of climate change include:

- more regular, severe cold snaps in winter that can put pressure on our water mains network
- drier, hotter summers which mean we need to make better use of our water resources
- more volatile weather events like extreme rainfall that can risk flooding to customers' homes.

The past year has illustrated the size of the challenge we and other utilities companies are likely to face, with extreme weather putting pressure on our services to an unprecedented level.

AFTER STORM EMMA

In March 2018, large parts of the areas we serve saw extreme snowfall, freezing temperatures and then a rapid thaw with services interrupted for a prolonged period for some customers in more remote, rural areas. While the vast majority (97%) of our customers remained on supply throughout, we faced a challenge in maintaining and restoring supplies for a minority in areas more severely affected by the bad weather.

After industry-wide reports from Ofwat, the Drinking Water Inspectorate, and consumer champion the Consumer Council for Water, we are investing in more remote monitoring and data analytics to help make our network more resilient to these types of shocks, further improving our ability to respond to supply interruptions in more rural areas.

DRY WEATHER

In the summer of 2018, our network experienced an unprecedented dry spell which placed pressure on our water resources, and required our colleagues to "go the extra mile" over a prolonged period to ensure supplies were maintained across the areas we serve.

This was the hottest June on record in Wales – with only 24% of long-term average rainfall during the month. The lack of rainfall continued for the following two months – meaning we had to spend an extra £1.5m a week to safeguard water supplies for our customers. To help tackle this challenge, customers were encouraged to use water sparingly and wisely.

At the height of the dry spell, there were very low flows in our rivers, and this raised concerns that water quality and the environment would suffer if the dry weather continued throughout the summer.

IN NUMBERS

- Around **450 people** worked **seven days a week** during the period of low rainfall to find and **fix 140 leaks a day** (this would be around 80 leaks a day in normal conditions).
- **Leakage** down 50% **in the last couple of decades**.

- We deployed **40 tankers** to **move water around** the network and **installed temporary pipelines** and **pumping stations** to help **keep customers in supply** despite huge increases in demand in some areas

- We pumped **over 1 billion litres a day** into the network over the **period of dry weather – 20% more than the usual** amount of water we put into the network every day


Divers at Cwm Dulyn in Gwynedd

STORM CALLUM

In October, parts of Wales saw the worst flooding for 30 years, with extreme rainfall resulting in many homes and businesses flooding in some areas, with Carmarthenshire, Ceredigion and south Powys experiencing the worst of Storm Callum.

The severity of this event is unprecedented – with a month's rain in 48 hours, in some parts of south Wales the storm was classified as less likely than a 1 in 250 year event. The River Tywi burst its banks and breached Carmarthen's flood defences, as Met Office flood warnings remained in place across Wales over several days.

While these conditions caused challenges for our wastewater network in areas of extreme rainfall, our investment in RainScape, a £114m sustainable drainage scheme in Llanelli, a town which had previously experienced issues with its Victorian sewer network and sewer flooding, was credited with helping the town avoid significant flooding. The investment uses natural methods to divert rainwater from the sewer system, slowing it down and redirecting it to rivers and watercourses or into the soil instead.

Unlike in previous storms, no properties were flooded in Llanelli, a tribute to the effectiveness of our investment there. Our own computer modelling also shows that if RainScape had not been in place, more than 100 properties would likely have been flooded.

HOW WE WORK WITH YOU

As well as being a provider of water and wastewater services – we are part of the communities we serve.

As one of the largest companies in Wales, we have a responsibility to try to leave the environment in a better state than when we found it.

That's why we have a number of projects to support and inform our customers and protect and enhance the world around us.

EDUCATION

We are committed to continuously improving pipes, protecting the environment and looking for new ways of doing things. We also want to inspire younger generations by working with schools and teaching about the value of water. This year, over 68,000 children and young people have taken part in our education programme.

Our education team, which is based across our four Discovery Centres (in Cilfynydd Wastewater Treatment Works, Cog Moors Wastewater Treatment Works, Llyn Brenig Visitor Centre and Elan Valley Visitor Centre), covers topics such as:

- Awareness of the value of water and the role we play in the communities we serve
- Encouraging behavioural change in water efficiency and sewer abuse
- Working with organisations like STEM Cymru and Engineering Education Scheme Wales to encourage young people to take up careers in the water industry, particularly young women.

This year, the team reached a remarkable milestone – having reached half a million children through school visits and days at our Discovery Centres since we became a not-for-profit company in 2001. We intend to celebrate this with a special event at the National Assembly for Wales in July 2019.

COMMUNITY FUND

In September 2017, we launched an exciting new project – the Welsh Water Community Fund. The Fund was intended to give something back to the communities we are investing in and support projects that are benefiting those areas – making them healthier, improving well-being, or helping the environment.

In the year that followed, we're proud to say we awarded nearly £60,000 to communities across Wales, Herefordshire and Deeside, supporting 157 different projects with up to £1,000 each. We've also given out more than 3,200 of our Dŵr reusable bottles to events and groups.

- *Funding helps creation of a new floodlit rugby pitch at Nant Conwy RFC*

We contributed to a project for Clwb Rygbi Nant Conwy in North Wales to pay for its newly created floodlit rugby pitch at Pant Carw, Trefriw, including a contribution from the Community Fund. This exciting project provides the local community with a brand new facility in the heart of the Conwy Valley.

- *Trellech pupils latest to join Daily Mile initiative*

Following a year of fundraising the community of Trellech Primary School in West Wales have launched The Daily Mile, an initiative that encourages children out of the classroom for 15 minutes every day to run or jog, at their own pace, with their classmates. The school received funding from the Community Fund to support the completion of a path through the school grounds. The path means children can complete The Daily Mile – whatever the weather.

- *Under-7s get funding for new kit from Welsh Water's Community Fund*

After applying to the Welsh Water Community Fund, the young football fans at Llandudno Junction Under-7 Sharks received funding to buy new training coats for the whole team. The Sharks is a team made up of children aged six and seven, with the whole team new to football.

WATERAID AND THE PRINCE'S TRUST CYMRU

Our commitment to improving the world around us extends beyond the borders of the areas we serve – we support communities in Uganda to build sustainable and safe water and wastewater systems and provide hygiene education.

This links to WaterAid's aim to help everyone, everywhere by 2030. That's why Welsh Water has been supporting WaterAid since 1981 – when we co-founded it along with the rest of the industry. Our employees and customers have since given more than £1m to support WaterAid's work and provide regular school outreach activities with lesson plans based around our replica Ugandan Village in Cilfynydd, which demonstrates just how far some people in Uganda have to carry water to reach their homes. In the past year, colleagues have raised more than £77,000 for WaterAid through a number of fundraising activities, including our third Race Evening at Chepstow racecourse, our second WaterAid Ball and numerous sporting and individual fundraising activities.

We have also continued our support of the Prince's Trust, a charity which helps vulnerable young people get their lives back on track. It supports 11 to 30-year-olds who are unemployed and those struggling at school and at risk of exclusion. This partnership has included fundraising by colleagues through "Million Makers" – and our team of graduates has raised more than £26,000 through a number of fundraising activities, including a 10km run, a gala dinner and auction, and a Golf Day.

Our Community Fund also pledges to match funds raised by our colleagues for WaterAid and Prince's Trust to the value of £15,000 each per year, while individual employees can claim up to £200 match funding for their own charity efforts.

VISITOR CENTRE INVESTMENTS

Lisvane and Llanishen Reservoirs in the north of Cardiff were acquired by Welsh Water in early 2016, with a view to restoring them to their former glory and opening them up for the public to enjoy. Alongside extensive maintenance and safety work at the site, we have been engaging with the local community at the site over a number of years – culminating in a planning application to be lodged in summer 2019. This application sets out how we intend to open the sites up for the local community and visitors to enjoy, including a range of leisure facilities. This has followed extensive restoration work on both reservoirs.

Llys y Frân Reservoir in Pembrokeshire has also been given the go-ahead for a major redevelopment of the site, which will be supported by European Development Fund funding through Visit Wales. The plans – which aim to realise our ambition of creating a first-class tourism destination in inland Pembrokeshire – include creating a recreational park and activity centre which will attract an estimated 40,000 additional tourists, outdoor enthusiasts and local residents each year. The plans include refurbishment and expansion of the visitor centre and full refurbishment of the café with a new water-themed play area. A new Outdoor Activity Centre and Waterside Cabin will also be built to support walkers, cyclists and water sports enthusiasts.

Our sites at Brenig, Llandegfedd and Elan Valley continue to be popular with customers and to play an important role in our educational activities for children and adults as well as providing a valuable recreational asset. In 2018-19 the total number of visitors to our centres was 557,000 (2017-18: 485,000). We are targeting an increase of visitor numbers to 830,000 by 2024-25.

HOW WE'RE DOING

To help us measure our performance, our Business Plan for 2015-2020 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.

	MEASURE OF SUCCESS ‡	OFWAT TARGET 2018-19	2018–19 OUT-TURN VS OFWAT TARGET	2017–18	2018–19 OUT-TURN	2018–19 VS PREVIOUS YEAR	BUSINESS PLAN 2019–20 TARGET	ON COURSE TO MEET 2020 TARGET?
1	HIGH QUALITY DRINKING WATER							
A1A*	Safety in Drinking Water (% Compliance)	–	–	99.98%	99.98%	✓	99.99%	✓
A1B*	Safety in Drinking Water (Mean Zonal Compliance)	100%	✗	99.96%	99.97%	✓	99.98%	✓
A2*	Customer acceptability (contacts per 1,000 Pop)	–	–	2.79	2.98	✗	2.40	✗
A3	Reliability of Supply (Customer Minutes Lost)	12	✗	43.3	16.04	✓	12	✓
2	PROTECTING THE ENVIRONMENT							
B1	Abstraction of Water for us	100%	✓	100%	100%	✓	100%	✓
B2*	Treating wastewater	100%	✗	98.21%	99.64%	✓	99%	✓
B3A*	B3a Preventing pollutions (number of pollution incidents)	–	–	115	123	✗	112	✓
B3b*	B3b Preventing pollutions (category 3 pollution incidents only)	131	✓	112	118	✗	112	✓
3	RESPONDING TO CLIMATE CHANGE							
C1	Responding to climate change	20,000	✗	15,097	15,967	✓	25,000	✓
C2	Carbon footprint (Gwh of clean energy)	85	✓	97.89	85.02	✗	125	✓

* Measured by the calendar year (January 2018 to December 2018). Other outcomes are measured by the financial year (April 2018 to March 2019).

‡ A definition of each Measure of Success can be found in Appendix 1 on pages 172 to 173.

† Final out-turn not available until July 2019.

A detailed comparison of our general performance on some key measures against that of other water and sewerage companies be viewed on discoverwater.org

	MEASURE OF SUCCESS ‡	OFWAT TARGET 2018–19	2018–19 OUT-TURN VS OFWAT TARGET	2017–18	2018–19 OUT-TURN	2018–19 VS PREVIOUS YEAR	BUSINESS PLAN 2019–20 TARGET	ON COURSE TO MEET 2020 TARGET?
4	CUSTOMER SERVICE							
D1	Service Incentive Mechanism (SIM)	Top quartile	†	85	87	✓	Top quartile	✓
D2	At Risk Customer Service	550	✗	613	641	✗	425	✓
D3	Properties flooded in the year	282	✓	221	221	✓	222	✓
D4a	Business Customer Satisfaction (%)	–	–	88	89	✓	88	✓
D4b	Non Household Customer Satisfaction (%)	90	✗	87	88	✓	88	✓
D5	Earning the Trust of Customers (%)	71	✓	84	85	✓	85	✓
5	AFFORDABLE BILLS							
E1	Affordable Bills (% below inflation)	–1	✓	–2	–2	✓	–1	✓
E2	Help for Disadvantaged customers*	–	–	105,864	125,152	✓	100,000	✓
6	LOOKING AFTER OUR ASSETS							
F1	Asset Serviceability	Stable (x4)	✓	Stable (x4)	Stable (x4)	✓	Stable	✓
F2	Leakage (Ml per day)	171	✓	172.9	169.5	✓	169	✓
F3	Asset Resilience (Water)*	85	✓	90.4	90.2	✗	89	✓
F3	Asset Resilience (Waste Water)	76	✓	77.5	79	✓	78	✓
7	DEVELOPING AND PROTECTING OUR PEOPLE							
G1	RIDDOR Incidents	–	–	14	8	✓	10	✓
G2	Competence in Role (%)	–	–	82	85	✓	95	✓
8	EFFICIENT BUSINESS							
H2	Financing Efficiency (credit rating)*	–	–	A/A2/A	A/A2Neg/ ANeg	✗	A/A3/A	✓

* On 5 June 2019 Fitch reaffirmed their A rating (with a negative outlook).

OUTCOME

1

HIGH QUALITY DRINKING WATER

"SUPPLYING SAFE, HIGH-QUALITY DRINKING WATER AT ALL TIMES IS OUR MOST IMPORTANT RESPONSIBILITY"

WATER PIPES ACROSS OUR AREA
27,500km

WATER TREATMENT WORKS
63

INVESTMENT IN WATER 2018-19
£180m

SAFETY IN DRINKING WATER

Our performance in maintaining and improving the overall quality of drinking water has improved in the past year, putting us in an above-average overall position for the industry in England and Wales at 99.97% average compliance with drinking water tests (2017: 99.96%). Our performance in complying with the standards at our water treatment works has remained broadly stable, with three water quality failures over the course of the year – but this represents a deterioration from our best-ever result in 2017 (no failures).

CUSTOMER ACCEPTABILITY

A year of extreme weather events has impacted our efforts to drive up our performance across some customer service measures. For instance, the prolonged summer drought – including the hottest June on record in Wales – and the efforts to detect and repair leaks, increased the number of contacts we received from customers about the appearance, taste and odour of their water (Customer Acceptability), as disturbance to pipes can cause water discolouration. During the dry spell, we were also putting a billion litres of water into the system every day – up 20% on the normal amount. Numbers of complaints increased to 2.98 per 1,000 customers, compared to our improved performance of 2.79 in 2017.

We are redoubling our efforts to ensure the quality of drinking water is more resilient to weather challenges and asset failures, but events like burst water mains can affect the appearance and taste of water. We have continued to tackle this issue through our "Zonal Studies" programme, which is cleaning and replacing water pipes in areas most often hit by service interruptions or discolouration issues, including in areas of Anglesey, Herefordshire, and significant parts of the Maerdy-Pontypridd area. These projects not only dramatically improve the reliability of the water supply, but also protect the quality of drinking water, and so assist in reducing the number of customer contacts we receive about the

1	HIGH QUALITY DRINKING WATER	2017–18	2018–19	18–19 vs 17–18
A1A*	Safety in Drinking Water (% Compliance)	99.98%	99.98%	✓
A1B*	Safety in Drinking Water (Mean Zonal Compliance)	99.96%	99.97%	✓
A2*	Customer acceptability (contacts p/1,000 pop)	2.79	2.98	✗
A3	Reliability of Supply (Customer Minutes Lost)	43.3	16	✓

appearance, taste or odour of the water, which totalled 10,172 last year. Over the last year we have invested a record £180m to help improve the reliability of our supplies.

We have invested significant amounts – £20.5m in the last year – to drive down leakage across our network, in order to improve our efficiency and reduce costs for our customers. Despite challenging weather in 2018, we have reduced the incidence of leakage year-on-year – building on our strong record for reducing leakage across our network.

RELIABILITY OF SUPPLY

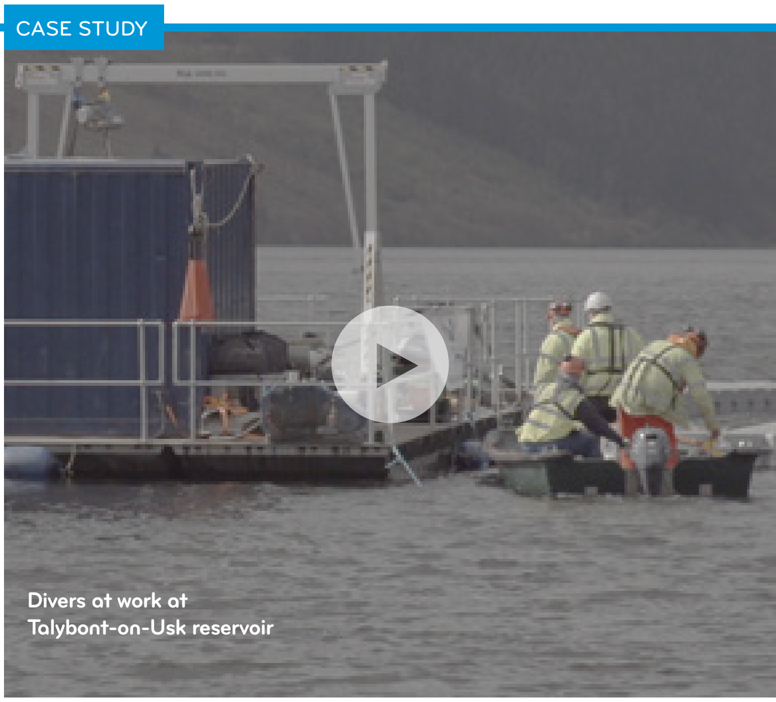
Reliability of supply is important for our customers – and we manage our network every day to try to ensure any operational challenges we encounter do not impact on customers' supply. However, sometimes circumstances outside our control do impact on customer supply – particularly in difficult weather conditions. We have encountered a number of operational incidents in 2018-19 which have impacted on customer service. These incidents included significant bursts next to the A4077 road in Crickhowell in August, which affected the nearby Green Man festival, a burst in Kinmel Park in November and a challenging repair near our Cwmtillery Water Treatment Works in February. We also had a significant challenge in repairing a burst main in the Radyr area of Cardiff in January, which was caused by damage from a third-party utility's contractor. We have introduced a new "Plan and Protect" scheme, which will aim to reduce damages to our assets by third parties through the creation of a dedicated team of colleagues to deal with enquiries from customers and contractors who want to work close to our network or who need help to identify where these assets are.

The weather conditions during the period of very low rainfall in the summer and Storms Bronagh and Callum in the autumn can also have an effect on ground conditions leading to increases in burst mains. These weather conditions also had an impact on our efforts to continue our progress in reducing "customer minutes lost" to supply over the year. As a result we did not meet our target of 12 minutes lost per customer during 2018/19 – actual performance was 16 minutes lost per customer, which was still a significant improvement on the 43 minutes lost per customer the previous year which was heavily impacted by 'Storm Emma'. This measure is highly weather-dependent, but as we continue to invest in mains rehabilitation and replacement we should be better able to control the impact of the weather on these assets.

PIPES IN DAMS

Our innovative "Pipes in Dams" programme has continued in 2018-19. This has ensured our dams – some of which were built in Victorian and Edwardian times – are ready to meet the challenges of a changing climate for generations to come. The project, which totals £350m investment over 3 AMP periods, aims to upgrade pipework where necessary at the reservoirs and dams across the areas we serve, so that they stand up to the challenges presented by climate change. The method of construction of dams, like Caban Coch in Elan Valley and Talybont-on-Usk in the Brecon Beacons, means it's a complex issue we're likely to face more often in the coming years. We are planning to carry out work at Wentwood (Newport), Castell Nos (Rhondda Valley) and Brenig (Denbigh) dams in the coming year.

CASE STUDY



Divers at work at Talybont-on-Usk reservoir

TALYBONT DAM

In October, we completed work on a £10 million modernisation of Talybont-on-Usk dam in the Brecon Beacons, using divers and remotely operated submersible vehicles over several months to upgrade the pipework inside the dam, while maintaining drinking water supplies to over 44,000 households. A specialist dive team was brought in to perform a complicated and challenging procedure – removing parts of the pipe weighing several tonnes, in conditions of near-zero visibility. The operation involved groups from our Dam Safety and Capital Delivery teams with support from Lewis Civil Engineering, and the Caerphilly-based Edwards Diving Services, as well as Mines Rescue.

OUTCOME 2

PROTECTING THE ENVIRONMENT

"WE MUST NOT ONLY PROTECT AGAINST HARM TO OUR BEAUTIFUL NATURAL ENVIRONMENT, BUT ENHANCE THE AREAS IN WHICH WE WORK"

WASTEWATER TREATMENT WORKS
835

SEWER PIPES ACROSS OUR AREA
36,000km

ANNUAL SPEND UNBLOCKING SEWERS
£7m

TREATING WASTEWATER

Despite extremely challenging weather conditions over the past year, our environmental performance in treating wastewater to the required standards improved throughout the year, and we have achieved our best ever wastewater test compliance result for returning wastewater safely to the environment at 99.64% (2017: 98.21%), surpassing our previous best performance of 99.47% in 2016. We also achieved our best-ever wastewater treatment works compliance performance, with just two failures across the year (2017-18: 10). Of the total number of pollution incidents reported either to, or by, us a significant majority were from our sewerage system (73) rather than from our wastewater treatment works, demonstrating the impact of greater compliance at the works.

This improved performance comes after investment of £217m in our wastewater network – helping to drive the improvement despite the significant challenges from the prolonged dry weather and extreme rainfall events in 2018.

PREVENTING POLLUTION

Incidents of pollution are among the most serious incidents we deal with – whether it originates on customer properties, or from our own network. So we invest to reduce these incidents as far as possible – combining improving the performance of our own sewer network with initiatives to help customers understand the impact of their own behaviour on the health of our sewers and the environment.

Our Let's Stop the Block campaign continues to work with customers to raise awareness of the impact that blockages have on our network, our ability to invest for our customers, and on those whose properties are directly affected by the blockages themselves. The campaign highlights how we deal with around 2,000 blockages a month across our network, costing around £7m a year to address. Research by Water UK has shown that the vast majority (93%) of blockages across England and Wales are caused by incorrectly labelled "flushable" wet wipes. We continue to spread the key messages about preventing

2	PROTECTING THE ENVIRONMENT	2017–18	2018–19	18–19 vs 17–18
B1	Abstraction of Water for use	100%	100%	✓
B2*	Treating wastewater	98.21%	99.64%	✓
B3A*	B3a Preventing pollutions (number of pollution incidents)	115	123	✗
B3b*	B3b Preventing pollutions (category 3 pollution incidents only)	112	118	✗

blockages across our network of education "Discovery Centres" and directly to customers through advertising and social media promotion. Partly as a result of this work, we have seen a reduction in the number of sewer blockages from 22,612 in 2017-18 to 21,979 in 2018-19, a reduction of 3%, while our performance since 2015 to date has seen a reduction of 19%.

In a challenging year of extreme weather, particularly the drought over several months in the summer, we have seen an increase in the number of pollution incidents to 123 in the year (2017: 115). The number of the most serious Category 1 and 2 incidents also increased with 5 across the year (2017: 3).

We do all that we can to protect the environment – and have invested a huge amount in our wastewater network since 2001 to minimise any detrimental effect we have on the world around us. But sometimes things go wrong, and in September we saw a Category 1 (most serious) pollution incident at Five Fords Wastewater Treatment Works near Wrexham, following an accidental release of partially treated effluent from a storm tank during some work to try to improve environmental protection at the site, which resulted in the death of a large number of fish on a stretch of the River Clywedog. This followed a previous serious incident in July at Felindre Water Treatment Works, near Swansea, where an accidental spillage of chemicals (lime) caused the death of around 400 fish downstream of the site. In both cases, we engaged in rapid remedial works at the site, and have worked with Natural Resources Wales (NRW) to ensure we take steps to prevent such accidents in future. We apologise for our failure to prevent these two incidents.

BATHING WATER: Wales continues to lead the rest of the UK in terms of bathing water quality, receiving 44 Blue Flags for beaches and 86 Seaside Awards last year (2017: 47 Blue Flags for beaches). These awards are given to beaches that meet a number of criteria, including measures on water quality, environmental management, safety and services.

CASE STUDY

Workers in Mermaid Quay, Cardiff Bay

MERMAID QUAY

The commercial area of Mermaid Quay in Cardiff Bay illustrates the challenge we face when inappropriate materials are washed or flushed away into the sewerage system. We are investing £2 million to upgrade the sewer system in the area, after reports of local internal flooding caused by people putting fat, oil and grease down the sink which has built up as "fatbergs" in the sewer. More frequent cleaning to clear these materials can wear out old sewers quickly – and that is what happened in Mermaid Quay.

In its initial work phase, we have removed huge quantities of fat, oil and grease from the collapsed sewers. This work has been carried out in a busy commercial area with a number of restaurants and bars, so we have worked very closely with business owners to minimise disruption caused by our work.

Karen Jones, from Fabulous Welsh Cakes based in Cardiff Bay, said: "Since Welsh Water contacted me about the work, my experience has been mostly positive. It's been great having somebody on site and popping in daily to come and check we're not being affected too badly. I understand that the build-up of the fat and the grease, and things that shouldn't be flushed down the toilets, has caused this issue and it's really important that it gets fixed now so we don't have any more issues."

OUTCOME 3

RESPONDING TO CLIMATE CHANGE

"WE ARE PLANNING AHEAD SO OUR SERVICES CAN WITHSTAND THE BIGGEST CHALLENGES OF CLIMATE CHANGE IN THE DECADES TO COME"

SOLAR PANELS ACROSS OUR SITES
24,000

ENERGY PRODUCED FROM SLUDGE PROCESSING FACILITIES
39 GwH

ENERGY WE USE GENERATED FROM OUR OWN RENEWABLE SOURCES
17%

A key element of our Welsh Water 2050 strategy is responding to increasingly volatile weather patterns and environmental trends which place great strain on our water and wastewater services. The area we serve has a large coastline, and a number of areas which rank among the most socio-economically deprived in the UK. These areas are particularly vulnerable to the increasing effects of climate change in the coming decades.

The record dry weather experienced in Wales last summer was a good example of the type of challenge the Company faces over the coming decades – the prolonged dry spell putting pressure on water resources across the areas we serve. In response we had to deploy extra resources to tackle leakage and to move large amounts of water around our network either in tankers or by rezoning the network in order to avoid interruptions to our customers' supply. Following this challenging event, we have updated and amended our drought plan – which outlines our strategy for managing operations through prolonged dry periods.

BUILDING A RESILIENT BUSINESS

We are committed to building a business ready to meet the challenges of climate change – from droughts to flooding – which are likely to become far more common in coming decades. Extreme rainfall events will lead to increased risk of flooding and pollution, while drier, hotter summers are predicted, which could result in increased water demand and water supply deficits.

A key measure of how we are performing in our obligations to tackle climate change is the amount of surface water that is entering our sewers and particularly how much water we are diverting from the sewer networks. This is particularly evident in our RainScape Sustainable Urban Drainage systems (SUDs), which we've installed in Llanelli and in the Grangetown area of Cardiff, which retain or divert surface water in the landscape that would ordinarily enter the sewer network.

In 2018-19, we have continued our progress in these areas, removing rainfall run-off draining from an area equivalent to 15,967

3	RESPONDING TO CLIMATE CHANGE	2017–18	2018–19	18–19 vs 17-18
C1	Responding to climate change	15,097	15,967	✓
C2	Carbon footprint (GWh of clean energy generated)	97.89	85.02	✗

household roofs from the sewer system, up from the 15,097 roof area equivalent removed in 2017-18. With RainScape now becoming an integral part of our development plans across the business, we intend to maintain and accelerate this rate of improvement in coming years to protect more customers from the effects of surface water flooding.

With more than 36,000km of sewers across our operating area – often built in the Victorian era – easing the stress on our network will become ever more important as the effects of climate change are felt.

CARBON FOOTPRINT

Renewable energy generation has become an increasingly important part of our energy strategy – reflecting the emphasis Welsh Water places on making its assets as carbon-neutral as possible. For instance, we acquired the Food Waste to Energy site in Tremorfa, Cardiff, in December 2017 which generates energy for the next door Cardiff East Wastewater Treatment Works, meeting an estimated 53% of the works' energy needs directly with green energy. The energy is generated by anaerobic digestion of food waste collected from customers in Cardiff and the Vale of Glamorgan, under an agreement with the local councils.

This commitment to cleaner, greener ways of working has meant we have achieved a total 85GWh of renewable generation (equivalent to our renewable generation of 98GWh in 2017-18). Notwithstanding this increase in renewable generation, our level of generation self-sufficiency dropped this year to 18% (2017-18: 20%) as the gross electricity consumption by our assets has been the highest since 2010, mainly due to the extreme weather events (Storm Emma, summer drought conditions and Storm Callum). Our gross consumption rose to 480GWh (typical consumption: 460GWh per year). Please see Energy report on page 114 for more information.

BIODIVERSITY

We also have an important role to play in promoting biodiversity across our sites. This year we became the first body in Wales to publish our biodiversity action plan in accordance with the obligations in the Environment (Wales) Act 2016.

CASE STUDY

Sustainable drainage in Llanelli

STORM CALLUM AND RAINSCAPE

One of our major efforts to combat the effects of climate change has been to invest in natural solutions to reduce the amount of rainwater entering our sewer system in Llanelli – an area which sees almost as much storm water in its network as Swansea, despite the Swansea network serving three times the number of properties, and covering three times the geographic area.

Our £114m RainScape scheme has been working since 2013 to introduce natural solutions to stop, redirect and slow storm water from entering various parts of the sewer system, including building swales, planters and permeable paving. These efforts paid off in the autumn, when Storm Callum led to huge amounts of rainfall within a few days and the worst flooding in Wales in 30 years across Carmarthenshire. However, no properties in Llanelli suffered internal flooding during this incident, while our modelling showed that more than 100 could have been flooded had it not been for RainScape.

OUTCOME

4

EXCELLENT CUSTOMER SERVICE

"BEING CUSTOMER-LED MEANS WE CAN FOCUS SOLELY ON PROVIDING THE BEST SERVICES POSSIBLE, AND SUPPORTING THOSE WHO NEED IT MOST"

CUSTOMER SERVICE TO LARGE BUSINESS CUSTOMERS

Ranked 1st

in small retailer category

SCORE FOR BUSINESS CUSTOMER SATISFACTION

89%

SCORE FOR CUSTOMER TRUST

85%

Our Company vision is to earn the trust of our customers every day. A customer-led approach is a central focus of our way of working – we work for the benefit of the customers our not-for-shareholder Company was created to serve.

CUSTOMER SATISFACTION

Currently, our primary indicator of customer satisfaction is the Service Incentive Mechanism (SIM), a quarterly survey by Ofwat to measure how customers feel about our service when they've had to contact us. This involves interviewing both customers who have contacted us when something has gone wrong with their service, and customers who have contacted us for other reasons.

Our SIM performance this year saw the Company ranked in 3rd place overall among the 11 water and wastewater companies in England and Wales for 2018-19 (2017-18: 5th) with a score of 4.47 (compared to an average of 4.55 for all water and wastewater companies). This is a good outcome, but the measure will be replaced in AMP7.

In January, we launched our Retail 2025 strategy – which sets out how we will improve our customers' experience of our billing, debt collection and customer service functions. We plan to transform our customer "digital experience", based on an online "My Account" function, which will allow us to offer a more tailored service. We will also be making things easier and more efficient for our meter readers by using new technology.

We have continued to make good progress in reducing the number of complaints received. In 2018-19, we received 3,491 written complaints – down from 3,862 in 2017-18.

From 2019 onwards, SIM will be replaced by customer measures of experience: C-MeX – for household customers, D-MeX for developer customer, and B-MeX for business customers. These new measures will combine research into the experience of customers who have had direct contact with us, with those who have not had cause to contact us but have a view on the Company nevertheless.

4	CUSTOMER SERVICE	2017–18	2018–19	18–19 vs 17–18
D1	Service Incentive Mechanism (SIM)‡	85	87	✓
D2	At Risk Customer Service‡	613	641	✗
D3	Properties flooded in the year	221	221	✓
D4a	Business Customer Satisfaction (%)	88	89	✓
D4b	Non Household Customer Satisfaction (%)	87	88	✓
D5	Earning the Trust of Customers (%)	84	85	✓

AT RISK CUSTOMER SERVICE

We place huge importance on providing the best possible service all the time. But we know that we aren't always successful in this, and that some customers have experienced interruptions to their services or unacceptable failures of our service. Tackling these types of failures is among our most important responsibilities – and we invest a great deal in our water and wastewater services to help achieve this.

It is disappointing that we have seen an increase this year in the number of customers "at risk"of suffering from repeat problems such as interruptions to water supply, discolouration, odour in drinking water, or sewer flooding – to 641 (2017-18: 613 at risk). This reflects changing population centres as well as the impact of the severe weather during the year.

FLOODING

Sewage flooding into customers' properties is the worst service failure that can happen – and we are committed to doing everything we can to prevent it happening. We've invested heavily in RainScape solutions in areas like Llanelli in Carmarthenshire and Grangetown in Cardiff, where high surface water levels enter the sewer network, risking inundating the sewers and flooding customers' properties.

However, due to several incidents of bad weather across the year, particularly the periods of heavy rainfall from Storms Callum and Bronagh in Autumn 2018, we did not achieve the reduction in flooding incidents we were anticipating, so that over the year we had 221 incidents, the same number as in 2017-18.

BUSINESS AND NON-HOUSEHOLD CUSTOMER SATISFACTION

Welsh Water provides services to more than 100,000 business customers in Wales and adjoining parts of England. Our priority has been to improve our performance and reduce costs to our business customers. The level of satisfaction with our service amongst business and generally has remained stable in the past year, at 88%, improving from our performance of 87% in 2017-18. The Consumer Council for Water recently published its "Testing the Waters" report, which found 90% satisfaction with customer service for business customers in Wales, compared to 69% in England.

Following the introduction of the competitive market for services to business customers in April 2017, around 100 of the largest consumers of water in Wales have been able to choose their water retailer. The vast majority (93) have chosen so far to remain with us as their retailer. The Market Operator (MOSL) ranked us first for customer service by small retailers for large business customers in its Annual Market Performance Report for 2018-19.

EARNING THE TRUST OF CUSTOMERS

Trust is paramount and critical to the success of our operating model. Evidence from across the water industry in England and Wales suggests that our way of working engenders higher trust from our customers than for any other water company. This was confirmed in August 2018, when independent research from the Consumer Council for Water ranked us the best in the sector for levels of customer trust. The study also revealed that we were again the highest-rated company across England and Wales for value for money and customer satisfaction.

We also carry out our own survey annually to track how levels of trust change over time, which can help us track whether we are meeting the expectations of our customers. This year, the level increased slightly to 85% (2017-18: 84%) – which is encouraging given we dealt with a number of challenging operational situations, particularly the prolonged dry period in the summer and Storms Bronagh and Callum in the autumn, which put severe pressure on our operational teams and generated higher customer contacts. You can read more about the scale of the pressures on our teams on pages 22 and 23, and the effects of our RainScape project on preventing flooding during Storm Callum on page 33.

CASE STUDY

Delegates at our Vulnerable Customers event in Cardiff

VULNERABLE CUSTOMERS

In November 2018, we launched our strategy for vulnerable customers – setting out what we intend to do to support customers who are most in need of help and support. As part of the strategy, we intend to quadruple the number of customers on our Priority Services Register over 100,000 by 2025 and work with other organisations to help identify those customers who may need extra practical help. We are also targeting an increase in customers who receive financial help, through our range of social tariffs and other measures, to pay for their water bills – to 150,000 from 125,000 now.

The strategy document sets out our commitments to work with other utility companies and community organisations to identify those customers in need of extra support and to identify signs of vulnerability. We have pledged to establish a specialist support team that will be trained to identify signs of vulnerability, in order to embed this way of working in our everyday dealings with customers.

OUTCOME

5

AFFORDABLE BILLS

"OUR RESPONSIBILITY IS TO ENSURE OUR SERVICES ARE AFFORDABLE FOR ALL OUR CUSTOMERS – AND THAT THOSE WHO GENUINELY NEED SUPPORT GET IT"

LOW INCOME HOUSEHOLDS RECEIVING FINANCIAL SUPPORT

over120,000

CAP ON ANNUAL BILLS FOR HELPU CUSTOMERS

£200

RECOVERED IN ACTIONS AGAINST CUSTOMERS WHO REFUSE TO PAY

£9.1m

We have a responsibility to all our customers to strike the right balance between investing in our services to ensure they are the best quality, and ensuring the price we charge is fair and affordable for all our 1.3 million customers.

We see ourselves as more than just a water company – we want to be at the heart of our communities and bring long-lasting benefits to the areas we serve. But we know that some of the areas we serve are among the most socio-economically deprived in the UK and that many households genuinely struggle to pay their bills – and we are committed to supporting them as far as we can.

HELP FOR DISADVANTAGED CUSTOMERS

Our record in supporting customers who genuinely need help paying their bills is unmatched in the sector, providing financial help to more people than any other water company. We are also one of the few companies that puts our own profits into funding social tariffs – and we have far outstripped our own 2020 target of supporting 100,000 customers with such tariffs. We are now supporting 25% more than that target, with 125,000 low-earning households on social tariffs or receiving other forms of financial assistance

5	AFFORDABLE BILLS	2017–18	2018–19	18–19 vs 17–18
E1	Affordable Bills (Household) % below inflation)	–2	–2	✓
E2	Help for Disadvantaged customers	105,864	125,152	✓

such as HelpU to help limit their bills. This year, we used £7m of the Company's profits to support vulnerable customers in this way – which the Consumer Council for Water said was something other companies should emulate, adding that investing profit "achieves a fairer balance in terms of funding assistance for those struggling to pay".

AFFORDABLE BILLS FOR ALL

We have committed to ensure that any price increases are fair and affordable. We assured our customers in 2010 that we intended to deliver a decade of price increases in the average household bill that would be below the Retail Prices Index (RPI) rate of inflation. In February 2019, we confirmed that we had met that commitment, with a 2% reduction in the average bill in real terms for 2019-20. This means that in 2019-20, the bill is projected to be £88 lower than it would have been had average bills risen in line with RPI inflation. Our ambition is to build on this over the next five years, with our PR19 plans setting out a proposal to introduce a further 5% reduction, in real terms, in the average bill between 2020 and 2025 – a decrease of around £22 (before inflation).

CASE STUDY

We aim to create five Water Resilient Communities by 2025

WATER RESILIENT COMMUNITY PILOT PROJECTS

In areas where our investment in assets is having a considerable impact on local communities, we are challenging ourselves to involve customers in a way we have not done before and which leverages the power of our presence in the community, aligns our activities to address local needs and helps us focus on how we can create a legacy of beneficial impact where our work significantly impacts a community. This is illustrated by the work we have carried out in the Rhondda Fach area over the last year (see page 16) and we plan to introduce this to five other areas over the next five years, including the launch of the next phase in 2020-2022 in both Rhymney-Bargoed in South Wales and Rhyl in North Wales.

A particular focus of our community project in the Rhondda Fach has been identifying those customers who might be eligible for financial assistance, and working with third sector organisations, such as Trivallis Housing Association and Tylorstown Welfare Hall to ensure we can reach as many eligible customers as possible, to encourage them to apply. We know that providing financial assistance to reduce bills for customers in financial hardship reduces the likelihood of them falling behind with payments. This in turn reduces the bad debt charge which helps us to keep bills at a manageable level for all customers.

OUTCOME

6

LOOKING AFTER OUR ASSETS

"WE WILL INVEST TO SUSTAIN OUR NETWORK FOR THE LONG TERM"

VALUE OF CAPITAL INVESTMENTS 2018-19
£452m

ESTIMATED VALUE OF ASSETS
£23bn

INVESTED IN NEW WATER TREATMENT WORK AT BRYN COWLYD
£31m

The network we maintain to serve over 3 million people is vast. We operate 835 wastewater treatment works, 63 water treatment works, around 36,000 kilometres of sewers, and more than 27,500km of water pipes. The cost of replacing this network, if we were to replace it all now, is estimated at £23 billion.

So we have a big responsibility to ensure these assets last for years to come, and operate at the best standard possible. Our capital investment programme in the last year has reached record levels – at around £452m or £1.2m a day (2017-18: £430m), which reflects the priority we place on ensuring Welsh Water's network is in a more resilient position in 30 years' time than it is now.

ASSET SERVICEABILITY

This area is assessed by a number of key measures through which Ofwat monitors how we are investing in our assets. Companies are rated either "improving", "stable", "marginal", or "deteriorating". For 2018-19, we have reported our position as "stable" across all measures – this remains unchanged from 2017-18.

LEAKAGE

We are committed to significantly reducing the amount of water lost from our network each year – and we invested £20.5m during 2018-19 to ensure that leakage is minimised as far as possible as this is important to our customers. However, the volatile weather in 2018 meant that our ability to build on previous progress we have made in reducing leakage from our network was hampered by the effects of the dry weather and complicated by the amount of water needing to be added to the network to maintain supplies, which makes it more difficult to identify leakage. Thanks to a strong effort from teams across the business, and from our customers in responding to our requests to use water more efficiently during the summer months, we again reduced our level of leakage to 169.5ML per day (from 172.9ML per day last year).

Leakage has been reduced by 59% since 1994-95 when it averaged 413ML per day.

6	LOOKING AFTER OUR ASSETS	2017–18	2018–19	18–19 vs 17–18
F1	Asset Serviceability	Stable (x4)	Stable (x4)	✓
F2	Leakage (ml per day)	172.9	169.5	✓
F3	Asset Resilience (Water)	90.4	90.2	✗
F3	Asset Resilience (Waste Water)	77.5	79	✓

ASSET RESILIENCE (WATER)

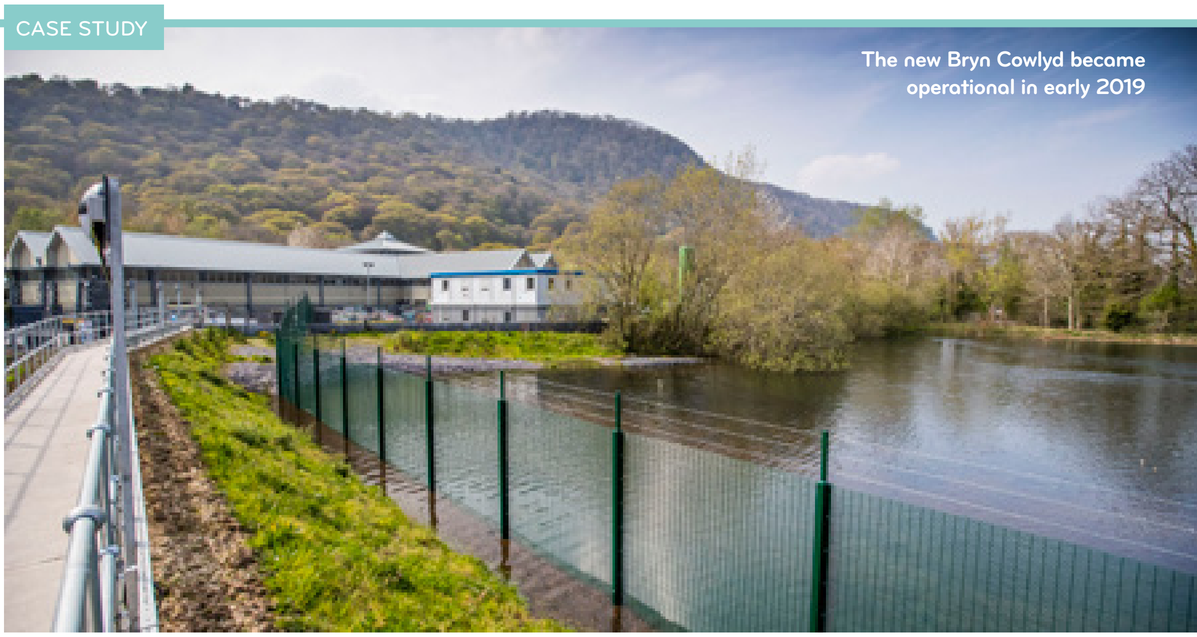
Investing in our drinking water assets is a key priority, ensuring our services are meeting the high expectations our customers have of us – as clean drinking water is among the most important things our customers value of the services we provide. We invest large amounts in ensuring our assets – including our extensive water pipe distribution network and our 63 water treatment works – meet strict criteria set by our regulators. We are encouraged that our asset resilience score remained largely stable at 90.2 out of 100 this year (2017-18: 90.4).

ASSET RESILIENCE (WASTEWATER)

Much of our sewer network dates back to Victorian times – with the total network at 36,454km long, almost long enough to travel around the planet. It is a major challenge to ensure this network continues to meet the needs of the communities we serve, and that it is fit for the challenges of climate change that are expected over the coming decades.

Every year during 2015-20 we have invested £217m in carrying out activities such as renewing sewer pipes and improving the operation of our wastewater treatment works. We're pleased to note that our performance has improved further this year, scoring 79 out of 100 (2017-18: 77.5 for asset resilience) against a set of standard criteria.

CASE STUDY



The new Bryn Cowlyd became operational in early 2019

BRYN COWLYD

Our biggest investment at a single site in the 2015-2020 period was the capital investment in Bryn Cowlyd Water Treatment Works in North Wales. Work began at Bryn Cowlyd in Dolgarrog in early 2016 and was completed in 2018. The £31 million upgrade of the water treatment works is designed to meet water quality standards as set down by the Drinking Water Inspectorate, to increase the resilience of the works in the context of reducing flooding risk from the nearby river, and to improve the water supply for up to 100,000 people in Llandudno, Colwyn Bay, Conwy and surrounding areas. Work included construction of water cleaning process buildings, storage tanks, a storm pumping station, a generator building and a chemical dosing building. The design of the new building will help protect the high quality of the supply and the environment in the area. The new works became operational in early 2019.

OUTCOME

7

DEVELOPING AND PROTECTING OUR PEOPLE

"WE WILL NURTURE AND DEVELOP OUR WORKFORCE TO BE SAFE, HEALTHY AND HAPPY – AND TO ACT AS OUR BEST AMBASSADORS"

EMPLOYEES
3,630

GRADUATES JOINED 2018-19
8

APPRENTICES JOINED 2018-19
28

As the fifth-largest company based in Wales, and with 3,630 colleagues working across all areas, we have a huge responsibility to the people who represent Welsh Water throughout the communities we serve. Our people are our greatest assets and ambassadors, and it is essential that we ensure our workforce is safe, healthy and happy while working at Welsh Water.

Our greatest priority for our colleagues is their well-being and safety at work, and we aim to ensure a culture of "safety first" pervades everything we do. This includes a commitment to supporting our colleagues' emotional well-being and ensuring that resources are available to support their mental health and well-being outside of work, as well as preserving safety on operational and office sites.

HEALTH AND SAFETY

Our health and safety performance for the year is encouraging and reflects the extensive efforts throughout the Company to instil a culture of proactive reporting and a safety-first mindset for every role in the Company. The number of RIDDORs (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) – injuries that need to be reported to the Health and Safety Executive (HSE) – has reduced from 14 last year, to a record low of 8 over the year, as shown in the table below. However, we consider any serious injury as one too many – and will continue our efforts to reach our ultimate aim of zero lost time injuries. Our annual Health and Safety Report can be found on the link: https://www.dwrcymru.com/handsreport

NUMBER OF RIDDORs

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total	24	21	24	23	20	19	12	14	8

During 2018-19, we placed a particular focus on encouraging our employees and contractors to make Positive Interventions and take action where Unsafe Acts or Conditions are observed. Over 55,000 interventions have been reported, which is over a 20% increase on the number recorded during 2017-18. We believe that taking action to address these hazards and unsafe behaviours has led to the prevention of some near miss incidents and also may have prevented accidents and injuries.

7	DEVELOPING AND PROTECTING OUR PEOPLE	2017–18	2018–19	18–19 vs 17–18
G1	RIDDOR Incidents	14	8	✓
G2	Competence in Role	82%	85%	✓

COMPETENCE IN ROLE

In order to continue to provide the highest levels of service to our customers, it is essential that we support and develop every individual across the workforce to ensure that everyone reaches their full potential. We carry out regular reviews across our business to gauge what skills we have and where we need to meet gaps. Our current score for "competence in role" (where individuals are measured against a predefined list of skills/knowledge for their particular role) has seen an encouraging increase this year to 85%, improving the score from 2017-18 of 82%, reflecting the training and upskilling of colleagues new to their roles develop to full competence.

INCLUSIVITY

We're committed to ensuring everyone at Welsh Water can be themselves at work and that we build an inclusive environment which welcomes everyone. We challenge ourselves to build on the success we have achieved in increasing the diversity of our workforce to better reflect the communities we serve.

Over the past 12 months, we've made steady progress in ensuring that more women work at Welsh Water, and in tackling long-standing challenges in attracting women to jobs traditionally associated with men. This has seen more women applying for our graduate and apprentice positions, as well as seeing nearly a third of our workforce now made up of women (an increase from 17% a decade ago). We are committed to working with other companies across the utilities sector to increase diversity – reflected in a sector-wide commitment to inclusion that was launched in February this year through the Energy & Utilities Skills Partnership. Women, people with disabilities, the BAME (Black, Asian, and minority ethnic) community and under 24s have traditionally been under-represented in the energy and utilities sector, compared to national averages.

GENDER PAY GAP

We want to build a workforce that fully reflects the diverse communities we serve. We know that companies with diverse, inclusive workforces achieve the best results – because they can access the full range of talent available in their communities. The ambition we are working towards is to have no Gender Pay Gap – a challenge which involves tackling long-standing trends of some areas of our work being male-dominated.

It is heartening that our median pay gap of 6.7% is well below the national average for 2019, and has narrowed since 2018 (2017-18: 7.5%). However, our mean pay gap did increase to 7.7% in 2018-19 (2017-18: 5.8%), which was mainly as a result of a change in the structure and responsibilities at senior executive level. This change led to a one-off effect on the figures, which we hope will reduce again in coming years. We have a clear plan in place to encourage greater diversity at all levels of the business, but particularly to ensure that those women already employed in the business are supported to reach their full potential. It is important to note that this is different to the principle of equal pay – all men and women at Welsh Water receive equal pay for performing equal work. We published our 2018 Gender Pay Gap figures on 1 April 2019..

> READ MORE ONLINE AT:
DWRCYMRU.COM/COMPANYLIBRARY

EMPLOYEE ENGAGEMENT

We are pleased that we were able to maintain our record-high engagement score in our annual employee engagement survey at 80% (2018: 80%), which reflects considerable efforts to ensure our employees have a direct say in the way we work and the culture we build together at Welsh Water. This was alongside our highest ever response rate to the annual employee engagement survey of 83.4% (marginally above the 83% response figure last year). Both figures are significantly above the private sector benchmark. Our challenge is to maintain this and to build on the progress we've made in the last five years, which has seen that score rise from 71% engagement score (2015-16).

CASE STUDY

Investors in People Gold Award

INVESTORS IN PEOPLE GOLD

Being awarded the Investors in People award in August reflects our commitment to high performance through engagement with our people; it is awarded to companies that show they are putting their people first to make the company a great place to work for everyone. We had aimed to achieve the Silver award, but were awarded Gold level – achieved by only 7% of all IIP accredited businesses across the UK. This award was the result of sustained effort across the business.

OUTCOME

8

AN EFFICIENT BUSINESS

"OUR BUSINESS WILL BE STRONG, SUSTAINABLE AND RUN SOLELY TO BENEFIT OUR CUSTOMERS"

RETURN OF VALUE DISTRIBUTIONS ANNOUNCED IN JUNE 2018

£40m

CURRENT LEVEL OF GEARING

58%

SUPPLIERS' INVOICES PAID WITHIN 30 DAYS

90%

Being the only not-for-profit water company in England and Wales gives us a unique perspective and long-term focus – we can plan our investments over decades, rather than just the short term. In line with our £1.7 billion investment plan agreed for 2015-2020, we have invested record amounts in our capital programmes over the past year, totalling £452m (2017-18: £430m), as we look to maintain and bolster the services we provide customers. We are able to do this at record-low interest rates for a UK utility, as we enjoy the strongest credit ratings in the industry, in part thanks to our not-for-profit status. This status has allowed us to continue our long-running commitment to reinvest the money we make back into the business to the benefit of customers – with a commitment in June 2018 to invest a further £40m in services and to support our most vulnerable customers: money that would go to shareholders in other businesses. (see page 16 for further details).

Our responsibility is not only to ensure we deliver services today at a high standard and an affordable price, but to run our business sustainably to ensure it is as strong for future generations.

FINANCING EFFICIENCY (CREDIT RATING)

The credit rating afforded to Welsh Water is critical to our customer-led approach – a strong rating means we are able to borrow funds for investment at low interest rates and maximise value for our customers. Our gearing has improved to 58%, from a high of 93% when Glas Cymru acquired Welsh Water in 2001, reflecting the efforts we've made in building our financial resilience to improve the viability of the Company for the long term.

Our credit ratings from the leading credit agencies – Moody's (A2), Standard & Poor's (A) and Fitch (A) – remained relatively stable year-on-year, and, being the best in our sector, reflect the continued confidence investors have in Welsh Water as a long-

8	EFFICIENT BUSINESS	2017–18	2018–19	18–19 vs 17–18
H2	Financing Efficiency (credit rating)	A/A2/A	A/A2neg/Aneg	✗

term investment. However, two agencies did downgrade our overall outlook from stable to negative – with Moody's reflecting what it considers likely to be a challenging price review in PR19 and S&P referring to our low profitability, mainly due to our discretionary actions to hold down customers' bills. Subsequently, on 5 June 2019 Fitch confirmed our 'A' rating but with a negative outlook.

BAD DEBT

We continue to focus on reducing the amount of bad debt, which is a cost borne by customers as a whole. Improved collection procedures mean we are able to better identify and pursue customers who are able to pay their bills, but choose not to.

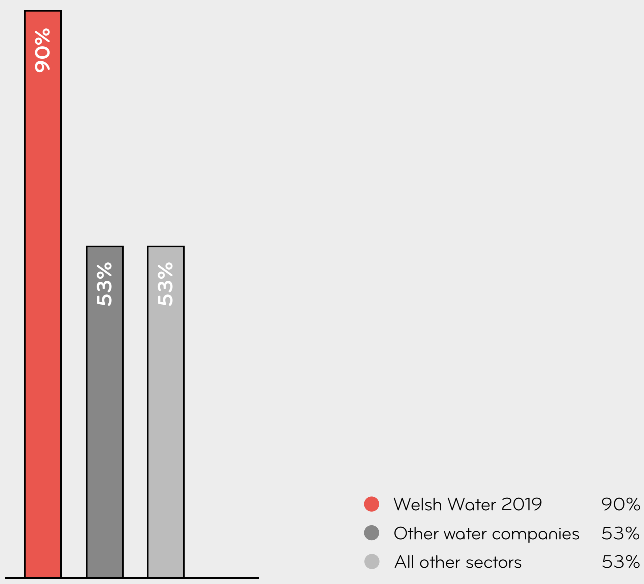
We balance this approach with improved support for those who genuinely struggle to pay their bills. As a result, our bad debt for the year was £21m, down from £22m in 2017-18.

CASE STUDY

Our record on supplier payments is well above the average

AVERAGE % OF SUPPLIER INVOICES PAID WITHIN 30 DAYS

90% 2018: 46%



PROMPT SUPPLIER PAYMENTS

In January, it was confirmed that Welsh Water is paying suppliers quicker than any other water company and better than most companies in the UK, with figures showing we were the best-performing water company in England and Wales for paying suppliers quickly. We pay over 90% of suppliers' invoices within 30 days of receiving them, compared to 53% on average for other water companies (who have published figures) and 53% for the average across all sectors. We pay a further 7% of invoices within 60 days. This represents a significant improvement for us, from an average of 46% paid within 30 days a year before.

In May 2019 we signed up to the Prompt Payment Code.

http://www.promptpaymentcode.org.uk/

OUR REGULATORS

Water and wastewater companies in England and Wales are regulated in three key areas: financial and economic (Ofwat), environmental (NRW and the EA), and water quality (DWI). These regulators aim to protect consumers and the environment and they monitor the performance carefully.

We try to develop, maintain and enhance our relationships with these 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 our water and wastewater 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, sewerage and environmental matters.

Gov.wales

Department for Environment, Food and Rural Affairs
The department responsible for UK Government input into the water and sewerage policy protocol with the Welsh Government.

Defra.org.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

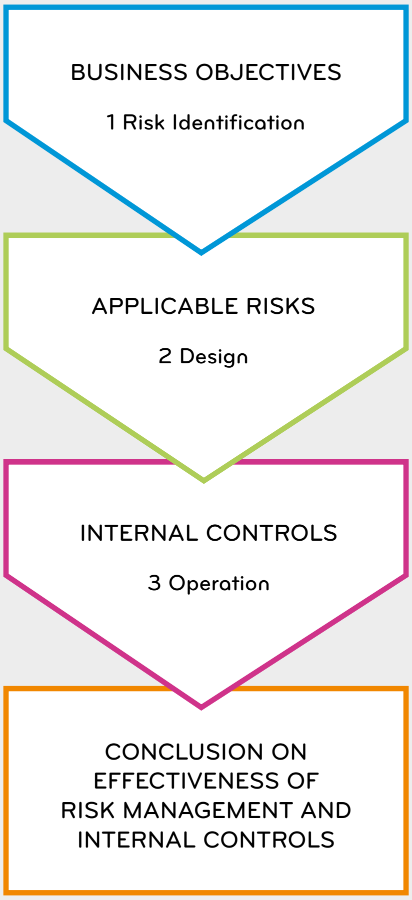
Welsh Language Commissioner
The principal aim of the Welsh Language Commissioner is to promote and facilitate the use of the Welsh language. We submit an annual compliance report to the Commissioner's office detailing how we have complied with the provisions of our statutory Welsh Language Scheme which outlines how we provide bilingual services to our customers.

comisiynyddygymraeg.cymru/english


Jack Wolfskin
dŵr

OUR APPROACH TO RISK MANAGEMENT

The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management. These processes involve all areas of the business to identify risks, including new and emerging areas of concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly. Our risk management framework supports our commitment to earn the trust of our customers every day through delivering excellent customer service at the lowest sustainable cost.



- understanding of objectives
- completeness of risk identification
- likelihood
- impact
- review and monitoring
- discussion of emerging risks

- prevention/detection controls
- cost perspective
- sub risks
- advice and guidance from Business Assurance and Compliance teams

- methodology statements
- advice from Compliance team
- annual opinion from Head of Business Assurance
- third party assurance from a range of providers
- lagging/leading KPIs

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. We use the "Three Lines of Defence" model and appropriate risk mitigation to ensure compliance with our processes and policies.

- First line of defence owns and manages risks. This is fulfilled by operational teams and managers. A wide range of potential events including legal, regulatory, core operations, customer service and hazard risks are reviewed.
- 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).

Ofwat also assesses risk management in the Company Monitoring Framework. This year Ofwat has awarded us the highest grading of "self assurance" for company monitoring which included a review of our Risk and Compliance Statement and Long Term Viability Statement.

FIRST LINE OF DEFENCE

- 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 by keeping a risk register. All teams are required to record risks and regularly update their risk register held locally.
- Risks are reviewed and scored for likelihood and severity of potential impact at team meetings, and any event should be escalated via team managers as appropriate. The route of escalation is primarily through the line management structure and associated committees. This is complemented by cross business focus on key risks (e.g. Information Security, Health and Safety) in dedicated committees within the 2nd line.

SECOND LINE

- Risks are discussed during a "top down" discussion of risk every month at a meeting of the Executive team (through the dashboard process and Board reports) and Managing Director's team meeting. The Executive team reflects key changes in risks within a strategic risk register and ensures each risk has an owner.
- Executive team members are responsible for confirming that they have adequately discussed, reviewed and escalated risk (where necessary) as part of their quarterly business plan update to Executive team meetings.
- Risks are considered, where appropriate, within the terms of reference of various operational groups and committees, for example the Health & Safety Steering Group, Information Security Steering Group, and within the Capital Alliance Framework. This is supported by the various compliance-focused teams within the business, including the Water Quality team which reports directly into the Managing Director of the operational business, and the Information Management Systems certification team.
- The Compliance team will monitor that all risk registers are updated quarterly and report this to a Senior Manager where this is not happening.

THIRD LINE

- The Audit Committee of the Board has accountability for overseeing the risk management processes and procedures and reports to the Board.
- The External Auditors also review our regulatory reporting information to Ofwat in the Annual Performance Report.
- Our Business Assurance function conducts audits of 1st and 2nd line systems of internal control, which consider the adequacy and effectiveness of risk management, compliance and control activities.
- Our External Auditors and our Reporter review our approach to risk and request evidence of risk review in the business.
- The Executive team's overview of strategic risks affecting the business is reviewed at every Board Meeting. The Board carries out an in-depth review of strategic risks and an assessment of Current and Target Risk Appetite twice a year.
- 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.

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 or 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 to a member of the public, on one or our sites or as a result of our actions, or to an employee in discharging their duties.	Clear and regularly reviewed H&S policies and line of responsibility with the Managing Director as the responsible Board Director. The HSE / Institute of Directors "Leading H&S" guidance is used as the "directing" framework. There is a visible leadership focus provided by the Executive team through "Safety Days" and promotion of "safety conversations" at all levels of the business. We follow industry best practice and regularly review our training schedules. The Glas Board provides oversight with reporting on H&S issues to every Board meeting and detailed reviews of lead indicators at the Quality and Environment Committee meetings. The H&S Steering Group includes Trade Union liaison and formulates an annual H&S plan – including a review of identified "Top 10" risks for further mitigation. There are regular communications across the business on H&S issues – for example at every team meeting, at employee Roadshows and at the annual H&S conference.	While there has been a reduction in RIDDORs this year there has also been an increase in "near misses" in our capital programme and we are addressing these issues through our STEP ("Safety Takes Every Person") behavioural change programme with our key contractors. Our aim is to take all reasonable steps to minimise the risk of death or serious injury through effective policies and working procedures.	
Major public health incident	A sustained problem with drinking water quality would require a widespread boil water notice and could lead to a significant impact on customer trust and regulatory action. This could be caused by asset failure, an unanticipated catchment risk, or deliberate sabotage.	We closely follow the approach set out in our Drinking Water Safety Plans to achieve good levels of compliance with key drinking water regulations. We have ISO accredited operating procedures and related audit processes focused on this issue. We are improving our water treatment works with the completion of "run to waste" facilities at key treatment works in 2018-19 and our "Zonal Studies" water mains programme to address network issues. We work closely through the Water Health Partnership with Environmental Health Authorities and Public Health Wales, to identify best practice and manage current issues.	We have reviewed our assessment of this risk in the light of particular water quality issues that emerged during the drought period. These were closely managed although we did have a taste and odour issue at Pontardawe during the drought, following a rezoning exercise.	

Risk key: Increased risk Decreased risk No change

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, an impact on stakeholder reputation and regulatory action (including ODI performance penalties).	We follow well-documented operational strategies and improvement plans in key areas. Our extensive capital investment programme is addressing our key performance issues such as focused water network improvement programmes to reduce interruptions and increase customer acceptability of water in specific areas with water quality issues (known as Zonal Studies). We are also investing in Smart technology and applying Data Science to increase monitoring and predict failures before they occur. We are improving our training and development of operational colleagues to focus on addressing performance challenges. We are actively encouraging the identification and implementation of key "innovation" activities, via new technology, working methods or improved operational response.	We are performing well in most areas and meeting our Final Determination targets for AMP6. However, our network acceptability performance (i.e. the colour, taste and odour of water from the network) is challenging in some areas due to the amount of aged, unlined iron mains in our networks and the levels of manganese naturally occurring in our raw water sources.	
Major supply failure	Failure of a dam, treatment works or strategic network flooding with a risk to life. Less serious (but still very significant) potential failure of a works with a potential loss of supply for thousands of customers. The impact of climate change and the increased strain on our assets is increasing the challenge and costs exposure in this area. Our experiences with unprecedented weather conditions during the past year has demonstrated the potential impact on our services.	We work to well-documented operational strategies in the clean and waste water businesses, including an Operational Technology cyber risk mitigation programme. Our Dam Safety Programme includes regular statutory inspections and additional inspections by expert engineers, an Annual Compliance Report addressed to the Board and key underpinning strategies such as "Portfolio Risk Assessment" of dams which supports our Pipes in Dams capital investment programme. We have targeted our AMP6 capital investment to improve resilience at key assets (for example, Bryn Cowlyd water treatment works). We have well-developed programmes to ensure Critical National Infrastructure (CNI) and Security and Emergency Measures Directive (SEMD) compliance. We undertake an annual testing programme for our Emergency Planning Procedures.	We have reviewed this risk in light of the pollution incidents at Felindre and Five Fords in summer 2018 and the trunk main bursts in Cwmtillery and the South East coastal rising sewer main in early 2019, but have concluded the overall risk assessment remains unchanged.	

KEY RISKS FACED BY THE GROUP CONTINUED

Key risk and severity	Potential impact	Mitigation	Changes over the period	Trend relative to last year
Loss of key talent, capability and competence	A skills shortage in some areas and increased investment in industries where we compete for labour present an emerging risk to our ability to attract and retain employees with the skills and competence we require. We also face the risk that key individuals could be targeted for recruitment by competitors.	We have relaunched our graduate and apprentice programmes and had our highest ever number of "hits" on social media in response to the recent coverage of our apprenticeship application programme. Our apprentices now attend specially tailored courses on day release to Cardiff and Vale College, with whom we have formed a close working partnership. We are working to define clearer career paths through the business for colleagues in our contact centre and we are focused on supporting every individual within the business to reach their full potential.	While key infrastructure projects (e.g. Wylfa, Swansea Bay Tidal Lagoon and Hinckley Point) had raised concerns about a worsening skills shortage, some of these projects are now on hold. Nevertheless we are concerned to continue to attract and retain individuals with key skills across our supply area. Our recent Gold award from Investors In People demonstrates our commitment to providing a great place to work for our people.	◀▶
ICT risk	A major loss of ICT service puts business performance at risk, while several business improvement plans are reliant on new ICT systems.	During 2018-19 the Glas Board created a Technology Committee of the Board to maintain oversight of digital risk and opportunity in the business and to increase awareness at Board level. We have carried out recent improvements to our SAP capability to strengthen the reliability and effectiveness of our key SAP software systems. We are also closely monitoring our contract with Infosys to maintain and improve systems availability. While external cyber security threats remain a significant element of this risk, we are actively managing this, including maintaining Cyber Essentials Plus accreditation and requiring this of our key suppliers. The Information Security Steering Group, which comprises individuals drawn from across the business, as well as Information Technology, Operational Technology and Information Security specialists, continues to monitor developments and raise awareness of these issues in the business.	While the external risks have probably increased (with increasing cyber-attacks generally), we are actively managing the risk at a number of levels in the business. Therefore, while we have improved the resilience of our technology, people and processes, this has kept pace with increasing external threats rather than decreased our overall risk level.	◀▶

Risk key: ▲ Increased risk ▼ Decreased risk ◀▶ No change

Key risk and severity	Potential impact	Mitigation	Changes over the period	Trend relative to last year
Tough regulatory settlement post 2020	A PR19 Final Determination by Ofwat which restricts the delivery of the customer outcomes and the Company's financial profile in 2020-2025 (AMP7) would mean we were potentially unable to improve customer service as we had planned and we would not be able to support our social tariff and financial assistance programme to financially vulnerable customers.	We are working to continue a dialogue with Ofwat prior to the publication of Draft Determinations in July 2019. We have strong support from our customers for the ambitious plans we have set out for 2020-25, balancing lower bills with increased investment in service and resilience.	Heightened political criticism of the financial gains made in the sector in the past has increased the potential risk of an over-correction by Ofwat in the PR19 price review process.	▲
Uncertainty following Brexit	Political and financial market volatility following the UK's decision to leave the EU, or potential supply chain issues (especially involving water treatment chemicals) in the event of a "no deal" Brexit.	We have worked with the rest of the sector to put in place contingency planning for essential supplies.	Greater political uncertainty.	▲
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/ government relationships, loss of employee morale. This risk is inextricably linked to many of the other risks identified.	We strive for continuous improvement in our services to "Earn the Trust of our Customers Every Day" and this focus on doing the right thing for our customers underpins our whole approach to service and everything we do. We also regularly measure customer trust – in 2018-19 the percentage of customers surveyed who said that they trusted us increased from 84% to 85%.	The recent political criticism of the sector as a whole, and the focus on dividend payments to shareholders, can also impact on us – not all of our customers recognise we are "not-for-shareholder". Ofwat's new customer satisfaction measures, C-MeX, D-MeX and B-MeX, are an unknown quantity in that they will focus research for the first time on all customers, not just those who have interacted with us recently.	▲

Notes on Significant Disputes with the potential to impact the Company

- **Infraction proceedings in relation to 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 completed 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. It is not yet clear whether the programme of investment will be acceptable to the Commission. During 2018-19 we have continued to provide updates to the Commission on the progress of the investment, which is still expected to have been completed by December 2020.
- **Claims under the Environmental Information Regulations 2001 (EIR):**
  The Company was notified in 2017 of potential claims under the EIR relating to charges previously levied for drainage and water searches carried out since 2004, which it is claimed should have been provided free of charge. We have continued to monitor correspondence in relation to these potential claims. Despite further correspondence during 2018-19, very little detail has been provided and the potential quantum of the claim is not yet clear. We continue to intend to defend the claims, should they be brought. Nothing that we have seen from the potential claimants to date suggests that the quantum of any such claims would be material in the context of the Report and Accounts.

LONG-TERM VIABILITY STATEMENT

OUR VISION IS TO EARN THE TRUST OF OUR CUSTOMERS EVERY DAY

Our customers need to know they can rely on the services we provide over the long term. Ensuring the long-term resilience of our business, including financial resilience, is therefore a key area of focus for us.

As we do not have shareholders (who could provide equity in the case of financial distress), maintaining ready access to low-cost debt is a key part of our not-for-shareholder ownership model. The benefits of this low-cost finance are then passed on to customers in the form of lower bills and improved services.

When the ownership structure under Glas Cymru was established in 2001, a focal element of this financial resilience strategy was to reduce our gearing. Gearing is currently slightly below the Board's target of 60% and this reduction in gearing has created a strong buffer of financial reserves (now standing at £2.4bn).

Although not a listed company, we adhere to the UK Corporate Governance Code, applying the shareholder provisions to our Members and bond investors. We have also followed Ofwat's guidance in IN19/07 in producing this statement.

OUR APPROACH TO CONSIDERING VIABILITY AND RISK

The Board's consideration of the Group's long-term viability is embedded in our business planning process; this includes robust risk management controls, 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. This year we have reconsidered the appropriate period over which viability should be reported: we consider that a period of up to 11 years is the most suitable period over which the Board should assess the prospects of the Group. It is within the period covered by our current business planning process and covers the next two regulatory review periods, to 2030. We have clarity of our current regulatory price controls to 2020, have developed detailed plans for the next regulatory period (AMP7) to 2025, and we have developed outline plans for the following period (AMP8) to 2030 in the context of our strategic planning document "Welsh Water 2050".

The principal risks facing the Group (and how we mitigate these) are set out on pages 48 to 51 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 embracing and managing 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 2019 business plan, which principally covers the period to the end of the next regulatory review period (AMP7) in March 2025, with financial forecasts stretching to 2035. Although we have developed plans for AMP9 (to 2035), we consider that the degree of uncertainty looking beyond two cumulative regulatory reviews makes such plans unsuitable for our viability and risk review. We have therefore used our plans and forecasts to 2030 for this review.

We have stress-tested our business plan forecasts to 2030 against a variety of financial scenarios which include the estimated impact of each of the principal risks and uncertainties occurring, both individually and together based on the Board's assessment of their likelihood and severity. We have also combined the forecast impact of these with high and low inflation scenarios over the period (5% and 0% respectively). In addition we have used "blanket" stresses of a 10% revenue reduction for AMP7 and a 10% total expenditure (totex) overspend for that period.

These scenarios have been picked as they provide a severe, plausible and reasonable test of overall flex in the financial plan, based on the principal risks to which the Board has identified that the Group is exposed. While it is highly unlikely that all of the identified scenarios will occur simultaneously, or even that they would all occur once during the period, we have modelled the impact of this to understand the level of resilience implicit in the forecasts. 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 an unacceptable threat to the Group's viability. High and low inflation scenarios also have a relatively small impact on the Group's viability, as both revenues and a significant proportion of net debt are inflation-linked. Even under a "crisis scenario", in which the principal risks and uncertainties occur in a low-inflation environment, the Directors do not expect to breach the gearing level trigger of 85% covenanted with our debt providers. While this is not considered a realistic scenario for the purpose of forecasting, it gives an indication of the overall level of financial resilience beyond the next regulatory review period.

In the case of all identified reasonably foreseeable scenarios arising, various options would be available to the Group in order to maintain liquidity so as to continue in operation. All funding is already in place to deliver the business plan to March 2020, including allowance for flex to the most extreme combination of adverse scenarios over this period. We are looking into additional funding sources for AMP7 and beyond and, given the success of our last bond issue (in January 2018), do not currently anticipate experiencing significant difficulties. The Group operates in a stable sector with predictable cash flows and a supportive regulator; levels of investor confidence have historically been high. Although on negative outlook now, likely changes to the regulatory environment and the Group's own principal risks are unlikely to have so great an impact on the Company's credit rating during the period under review as to put our access to financial markets at risk. The Directors are therefore confident that, in all the identified scenarios, the Group should retain 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. It is also important to recognise that Ofwat, the Company's economic regulator, has a statutory duty to secure that efficient water companies can finance the proper carrying out of their functions correctly – although this has no direct bearing on our business planning activities.

COMMERCIAL PROJECTS

The Group's activities outside of the regulated monopoly business are restricted by our Common Terms Agreement with our debt providers to the UK utilities sector, with a maximum investment of £100m (in 2016 prices). Such activities are therefore peripheral to the core business and have no material impact on the Group's overall viability or financial resilience, although they aim to generate additional funds that can be applied for the benefit of our customers, or to complement the operational business.

ASSURANCE PROCESSES

Our internal business planning workstreams separate the preparation of operational cash flow forecasts from the modelling of financing costs, which facilitates a robust two-way cross check on the robustness of the forecasts prior to review by the Executive team, Audit Committee and Board.

The financial model underpinning the forecasts has been subject to external agreed upon procedures designed to provide assurance over its integrity, with no exceptions identified, and we have also obtained external assurance on the key assumptions and forecast credit metrics in our draft plans for the period 2020 to 2025. This Viability Statement itself comprises part of the Annual Report and Accounts on which our external Auditors provide an independent audit opinion.

CONCLUSION

As a result of this 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 2030.

COMPANY DIRECTION AND PERFORMANCE STATEMENT

HOW WE DELIVER OUR SERVICES TO CUSTOMERS

Customers are at the heart of everything we do. This statement summarises how we are delivering for our customers and how we measure our performance.

This Strategic Report has covered eight "Outcomes" which are based on broad groupings of targets set by Ofwat at the last price review – "Outcome Delivery Incentives" (ODIs). The groupings represent the key elements of the essential services we provide to our customers across our supply area.

The regulatory targets are supplemented by our internal business and financial planning processes. Every year targets are discussed and agreed by the Board of Directors. The Executive team is held to account by our Non-Executive Directors to ensure that the targets are sufficiently challenging and to monitor performance in accordance with those targets.

Our Company vision to Earn the Trust of our Customers Every Day underpins our approach to delivering services, and the Board is conscious of the need to set targets which maintain and build on that trust, to promote the long term success of the company in accordance with Section 172 of the Companies Act 2006.

The Board also takes the opportunity to understand the views expressed by customers and other stakeholders in the extensive engagement exercises undertaken as part of establishing Welsh Water 2050, and in the context of setting the Company's five year business plans for 2015-20 and 2020-25.

Working on our Welsh Water 2050 Strategy for the next 30 year period 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 external challenges over time.

Our detailed business plan for the next five year period, 2020-25 seeks to balance ensuring the affordability of the essential services we provide with the investment needed to maintain a resilient infrastructure.

All gains eventually go to our customers, so that the interests of the Company and of customers are aligned, and the strategic direction of the Company takes this into account.

As well as delivering excellent service for customers, we need to manage costs carefully to keep bills as affordable as possible. The Board sets the Executive Remuneration policy which includes a significant element of variable pay, dependent on the Executive Directors delivering strong and consistent performance which achieves improved services for customers. This is reinforced by a focus on transparency and honesty in all communications with our Members, customers and regulators, acknowledging those areas where we can still do better, and building on the progress we have made to deliver better service to customers.

The Strategic Report on pages 9 to 54 is approved on behalf of the Directors. The Directors, in preparing this Strategic Report, have complied with Section 414C of the Companies Act 2006.

Chris Jones
Chief Executive

6 June 2019


Dŵr Cymru
Welsh Water

GOVERNANCE REPORT

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

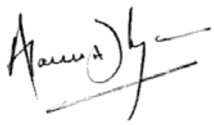
CHAIR OF THE BOARD'S INTRODUCTION

On behalf of the Board, I am pleased to introduce the Glas Cymru Group Corporate Governance Report for the financial year ended 31 March 2019.

At a time when good governance and decision-making on company boards is under particularly close scrutiny, Welsh Water's vision, to Earn the Trust of our Customers Every Day, remains at the heart of the Board's activities. The Board is focused on ensuring good governance and follows the UK Corporate Governance Code and our regulator, Ofwat's, Principles of Leadership and Governance. In 2018-19 the Company was subject to the 2016 Code (the "Code") and I am happy to report that Glas Cymru complied with the Code in all respects, applying the shareholder provisions to our Glas Members and bondholder investors, as appropriate. Further details on our approach to governance and compliance with the Code are set out in the pages of this Governance Report. This year we have also reviewed our processes against Ofwat's revised guidance on Leadership, Transparency and Governance for water company boards of directors.

We are committed to ensuring a diversity of background, skills and experience on the Board. 30% of our Board members are women and collectively, the individual Board members represent significantly different backgrounds and skills. The Board receives regular updates from the Executive team on succession planning and the development of individual skills within the business.

This report outlines the framework we have in place to meet governance requirements, and provides information on our Board and Committees and our Glas Members.

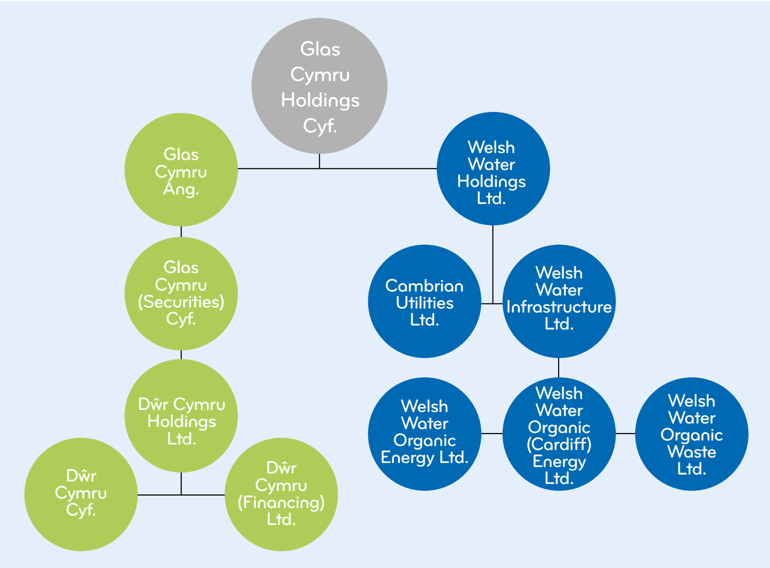


Alastair Lyons CBE
Chair of the Board

6 June 2019

OUR CORPORATE STRUCTURE

Our Financial Statements (from page 122) 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. This company was created as part of a corporate restructuring, which took effect on 1 March 2016, to be the new holding company for the Group. The creation of this new ultimate holding company enabled the creation of new subsidiaries which could undertake commercial investments outside the Common Terms Agreement which governs our whole business securitisation over the regulated business under Glas Cymru Anghyfyngedig.

Dŵr Cymru Cyfyngedig (referred to as Welsh Water throughout this report) is a wholly owned subsidiary of Glas Cymru and is the Group's principal trading company. Its principal activity is the supply of water and the treatment and disposal of wastewater, under an Instrument of Appointment (Licence) made by the Secretary of State for Wales under the Water Act 1989.

Glas Cymru Anghyfyngedig is the former parent company of the Glas Cymru Group.

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 was established prior to the acquisition of Welsh Water by Glas Cymru in 2001, and is a company dual registered in the Cayman Islands and in England and Wales. Since 2001 it has been managed, controlled and resident in the UK for tax purposes. The company on-lends the proceeds of any bond issues to Dŵr Cymru Cyfyngedig. During the summer of 2019 we expect to have transferred the debt held in this company to Dŵr Cymru (Financing) UK Plc, a new company registered in England and Wales. We expect to then liquidate Dŵr Cymru (Financing) Limited during 2020.

Welsh Water Holdings Limited is a subsidiary of Glas Cymru Holdings Cyfyngedig and is the intermediate holding company for companies outside the Common Terms Agreement:

- **Cambrian Utilities Limited** – created to offer competitive retail services to business customers; currently dormant while we wait to see how the competitive market for retail business customers develops in England and Wales.
- **Welsh Water Infrastructure Limited** – pursues commercial projects.
- **Welsh Water Organic Energy Limited** and **Welsh Water Organic Energy (Cardiff) Limited** – former Kelda Group companies, these subsidiaries were purchased in December 2017 and provide anaerobic food digestion and composting services under a contract to Cardiff and Vale of Glamorgan Local Authorities, supplying electricity from the digestion process to our Cardiff Wastewater treatment plant.
- **Welsh Water Organic Waste Limited** was established in July 2018 to provide waste disposal services for trade effluent customers.
- **Dŵr Cymru (Financing) UK Plc** was incorporated in April 2019 in order to become the new "issuer" company for the Group and will take over all the existing debt instruments from Dŵr Cymru (Financing) Limited. During 2019 it will become a subsidiary of Dŵr Cymru (Holdings) Limited.

BOARD OF DIRECTORS

CHAIR OF THE BOARD ALASTAIR LYONS CBE

APPOINTED NON-EXECUTIVE DIRECTOR: MAY 2016
IN POST SINCE: MAY 2016
COMMITTEE MEMBERSHIP:
F R Q N CHAIR T

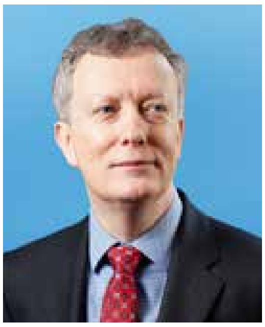
Responsibilities
See summary on page 62.

Alastair Lyons was appointed Non-Executive Director in May 2016 and was judged independent on his appointment as Chair of the Board in July 2016. He is also Chair of the Nominations Committee.

Skills and Experience
A chartered accountant by training, Alastair has 19 years' experience as a non-executive chairman of both listed and private companies. During an extensive executive career in financial services, he was Chief Executive Officer of both the Insurance Division 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 positions
Alastair is Chairman of Harworth Group plc, Vitality Health Ltd, and of AECS, the Admiral Group's European holding company.

Previous Non-Executive positions
Alastair previously served as Chairman of the Admiral Group, the direct motor insurer, from 2000 to 2017, Chairman of Towergate Insurance, Chairman of Serco, the international services group, Deputy Chairman of Bovis Homes, and as 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 of Work and Pensions. He was awarded the CBE in 2001 for services to social security.



CHIEF EXECUTIVE CHRIS JONES

IN POST SINCE: 2013

COMMITTEE MEMBERSHIP:
F Q

Responsibilities
Within the strategies set by the Board, to manage the Group's business effectively. Chris became Chief Executive in September 2013.

Skills and Experience
Prior to September 2013, Chris held the post of Finance Director of Welsh Water since May 2001. He was one of the two founder Directors of Glas Cymru in 2000. He has also previously served as Director of Regulation of Welsh Water and South Wales Electricity plc. Before joining Welsh Water in 1995, he was a Director at National Economic Research Associates and, prior to that, worked for HM Treasury.

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

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

Trustee of the Institute of Welsh Affairs.

FINANCE AND COMMERCIAL DIRECTOR PETER BRIDGEWATER

IN POST SINCE: SEPTEMBER 2014

COMMITTEE MEMBERSHIP:
F T

Responsibilities
Responsible for the financial well-being of the Group, for Commercial business, information technology, and for contributing to the strategy and leadership of the business.

Skills and Experience
Peter joined Welsh Water in September 2014 having had 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
Trustee Director of Tylorstown Welfare Hall Limited since June 2018.

Previous Non-Executive positions
Non-Executive Director of Ebico Limited, a not for profit gas and electricity provider, until April 2019.

NON-EXECUTIVE DIRECTOR PROF. TOM CRICK MBE

IN POST SINCE: OCTOBER 2017

COMMITTEE MEMBERSHIP:
Q T CHAIR

Responsibilities
See summary on page 63.

Tom also chairs the Technology Committee.

Skills and Experience
Tom is Professor of Digital Education & Policy at Swansea University, with his academic interests sitting at the research/policy interface - from data science through to public services. He has provided expert advice to the Welsh Government across a number of policy areas, and is currently a Commissioner of the National Infrastructure Commission for Wales. Tom was appointed MBE in the 2017 Birthday Honours for services to computer science and the promotion of computer science education.

Current other Non-Executive positions
Commissioner of the National Infrastructure Commission for Wales, Independent Member of Swansea Bay University Health Board and Vice-President of BCS, the Chartered Institute for IT.

NON-EXECUTIVE DIRECTOR GRAHAM EDWARDS

IN POST SINCE: OCTOBER 2013

COMMITTEE MEMBERSHIP:
A Q CHAIR

Responsibilities
See summary on page 63.

Graham is also Chair of the Quality and Environment Committee.

Skills and 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 wider range of manufacturing businesses including Engineering, Production and Human Resources. Graham has an MBA from Cardiff Business School and is a Fellow of the Chartered Institute of Personnel & Development.

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

Committee key A Audit F Finance N Nominations R Remuneration Q Quality and Environment T Technology

NON-EXECUTIVE DIRECTOR JOANNE KENRICK

IN POST SINCE: 2015

COMMITTEE MEMBERSHIP:
A Q T

Responsibilities
See summary on page 63

Skills and 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 the Senior Independent Director and Chair of the Remuneration Committee at Coventry Building Society, a Non-Executive Director of Safestore, the UK's largest self-storage business, Independent Chair of the Current Account Switch Service for Pay.UK 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 seven years and, more recently a Non-Executive Director of BACS Payment Services Limited.

MANAGING DIRECTOR PETER PERRY

IN POST SINCE: OCTOBER 2017

COMMITTEE MEMBERSHIP:
Q T

Responsibilities
Responsible for the implementation of operational strategy and for leadership of the regulated business, which is divided into three divisions – Water, Wastewater and Retail.

Skills and Experience
Peter was appointed Managing Director of Dŵr Cymru Welsh Water in October 2017 after four years as Chief Operating Officer.

Appointed as Operations Director of Welsh Water 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 was 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 MENNA RICHARDS OBE

APPOINTED NON-EXECUTIVE DIRECTOR: NOVEMBER 2010
IN POST SINCE: JULY 2014

COMMITTEE MEMBERSHIP:
N R

Responsibilities
See summary on page 63.

Menna is also a Member, representing the Board of Directors, of the independent Member Selection Panel, which recommends the appointment of Members to the Board.

Skills and Experience
Menna's executive career was in broadcasting as Director BBC Cymru Wales (2000–2011) and prior to that, Managing Director, HTV Wales.

Current other Non-Executive positions
Chair of the ALOUD charity. Vice President of the Royal Welsh College of Music and Drama.

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

NON-EXECUTIVE DIRECTOR ANNA WALKER CB

IN POST SINCE: MARCH 2011

COMMITTEE MEMBERSHIP:
A R CHAIR

Responsibilities
See summary on page 63.

Anna is also Chair of the Remuneration Committee, a role she has performed for more than 12 months.

Skills and 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 awarded a CB in 2003 for public service, is Deputy Chair of the Council of Which?, a member of the Competition Appeal Tribunal, a Non-Executive Director for South London and the Maudsley NHS Foundation Trust and Chair of St. George's Hospital Charity.

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.

NON-EXECUTIVE DIRECTOR JOHN WARREN

IN POST SINCE: MAY 2012

COMMITTEE MEMBERSHIP:
A CHAIR F CHAIR

Responsibilities
See summary on page 63

John is also Audit Committee Chair.

Skills and Experience
John is a qualified accountant with more than 25 years' experience in senior finance roles and has extensive experience in chairing Audit Committees of 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 a 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.

ROLES AND RESPONSIBILITIES

HOW WE MEET THE PROVISIONS OF THE UK CORPORATE GOVERNANCE CODE[1]

The UK Corporate Governance Code 2016 (the "Code") is the standard against which we measured our governance practices at Glas Cymru in 2018. The Code is available to download at www.frc.org.uk

Throughout the year ended 31st March 2019, Glas Cymru fully complied with the Code.

The following sections set out how we comply with the provisions of the Code, the main principles of which cover the following areas:

- **LEADERSHIP**
- **EFFECTIVENESS**
- **ACCOUNTABILITY**
- **REMUNERATION**
- **RELATIONS WITH SHAREHOLDERS[2]**

1. The Code was updated and reissued, together with the accompanying Board Effectiveness Guidance, by the Financial Reporting Council in July 2018, and applies to companies reporting for periods beginning after 1 January 2019 (the "Revised Code"). We intend to report fully in accordance with the Revised Code in our 2020 Annual Report. Meanwhile we have started to implement the steps needed to ensure our readiness to comply with the Revised Code, including ways in which the Board can engage further with employees and stakeholders.
2. We do not have shareholders but we apply the provisions of the Code to our Members and Investors.

THE BOARD MEMBERS

All Board members are directors of both the holding company Glas Cymru and of the regulated operational company, Dŵr Cymru Cyfyngedig. The identical Board ensures a unified approach where the interests of the operational company are promoted as if Dŵr Cymru Cyfyngedig were a separate public listed company, in line with Ofwat's guidance on Board Leadership, Transparency and Governance.

The Board has collective responsibility for:

- setting the strategy of the Group, ensuring the long-term success of the Group for the benefit of its customers;
- monitoring performance of the Executive team against the strategic objectives;
- ensuring adequate financial and human resources to achieve the Group's objectives;
- overseeing major capital investment projects; and
- setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.

Those **Matters Reserved** to the Board for its own decision-making and the Terms of Reference of each Board Committee are set out on our website at www.dwrcymru.com/en/Library.aspx In addition to main Board meetings, there are regular meetings of the Audit, Nomination, Quality and Environment, Remuneration and Technology Committees. The Finance Committee meets or conducts business via email communications or by telephone on an ad hoc basis. During the year 2018-19, the Board established a new Technology Committee for the purpose of overseeing the Group's information and communications and operational technology provision in supporting the achievement of the Group's medium-term business objectives in the most efficient manner and in accordance with the Group's identified risk appetite.

A description of the work of the Audit, Finance, Nomination, Quality and Environment, Technology and Remuneration Committees is set out on pages 70 to 103.

The Board has delegated detailed consideration of certain responsibilities to the Board Committees, while retaining overall responsibility for decision-making in these areas.

Chair of the Board The Chair of the Board is responsible for the leadership of the Board, setting the agenda for Board meetings and ensuring the effectiveness of the Board and its Committees and good governance.

Chief Executive Beyond matters reserved to the Board, the Chief Executive has primary responsibility for managing the day-to-day affairs of the Company. He is supported by the Executive team.

The Executive team is made up of the Executive Directors and senior Management who report either directly to the Chief Executive or to the Managing Director, and has responsibility for implementing the strategy agreed by the Board and for day-to-day management of the Business.

The Company Secretary supports the Chair of the Board in ensuring the Group demonstrates good governance. Meeting agendas for Board Meetings are agreed in consultation with the Chair of the Board and Chief Executive, although any member of the Board may request that an item should be added to the agenda. The Company Secretarial team is available to support all Non-Executive Directors and the Executive team and works to promote good information flows between the Board, Executive team and internal committees and management teams within the Group.

Senior Independent Director The Senior Independent Director (SID) meets with other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chairman. The SID is also available to any Glas Member who wishes to raise any issues with them.

The Non-Executive Directors have a diverse range of skills and experience which they apply for the benefit of the business. They challenge the Executive Directors constructively and monitor the delivery of the Board's agreed strategy within the risk and control framework set by the Board. As well as chairing or attending committee(s) of the Board, they are involved in mentoring and supporting members of the Executive team and senior managers across the business, and take an active interest in operational issues affecting the business (see page 66 for details of site visits undertaken by Non-Executive Directors during 2018-19).

> READ MORE ABOUT DIRECTORS' BIOGRAPHICAL DETAILS AND THE PARTICULAR SKILLS LISTED FOR EACH DIRECTOR ON PAGE 60

EXTERNAL APPOINTMENTS OF THE EXECUTIVE DIRECTORS

Chris Jones is Deputy Chairman of the Princes Trust Cymru Advisory Council. During the year, Peter Bridgewater was a Non-Executive Director of Ebico Limited and Ebico Trading Limited, for which he was separately remunerated £20,000 in 2018-19[1]. He also became a Trustee Director of Tylorstown Welfare Hall with effect from 18 June 2018.

BOARD MEETINGS AND ATTENDANCE

Director	Board	QEC	Audit	Remuneration	Nominations	Finance	Technology***
Chris Jones	11/11	6/6	5/5	–	1/1	1/1	2/2
Peter Perry	11/11	6/6	–	–	–	–	2/2
Peter Bridgewater	11/11	–	5/5	–	–	1/1	2/2
Alastair Lyons	11/11	6/6	–	8/8	1/1	1/1	2/2
Menna Richards	9/11	–	–	7/8	1/1	–	–
Tom Crick	10/11*	6/6**	–	–	–	–	2/2
Graham Edwards	11/11	6/6	5/5	–	1/1	–	–
Joanne Kenrick	11/11	6/6	5/5	–	–	–	2/2
Anna Walker	11/11	–	4/5	8/8	–	–	–
John Warren	11/11	–	5/5	7/8	–	1/1	2/2

* Tom Crick attended part of the January Board meeting by phone owing to illness and was unable to join the telephone Board meeting on 28 March 2019.
** Tom Crick attended part only of the January QEC meeting due to illness.
*** The Technology Committee was established in December 2018.

1. Peter Bridgewater stepped down from this external role with effect from 15 April 2019.

OUR GOVERNANCE FRAMEWORK

UK CORPORATE GOVERNANCE CODE PRINCIPLE — 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.

SUMMARY OF THE BOARD'S AREAS OF FOCUS IN 2018-19

During 2018-19 the Board has covered the following business in Board meetings:

- finalising and launching Welsh Water 2050;
- Ofwat PR19 price review strategy session for Board Members and preparation for the submission of the business plan, including efficiency and costs reviews and the extent to which each element of the plan aligns with the strategic aims of Welsh Water 2050;

- regular attendance by the Chair of the Customer Challenge Group at Board meetings, to discuss customers' input to the development of PR19 plans;
- understanding the key options for delivery considered in developing the PR19 business plan and approving the plan and its submission;
- reviewing performance against KPIs;
- oversight of operational performance, including considering lessons learnt from two significant pollution incidents (Felindre and Five Fords) and from the operational challenges of Storm Emma, the prolonged period of dry weather in the summer, and the autumn storms;
- reviewing risk management processes and reporting of risk across the business;
- reviewing steps to embed Welsh Water culture within the newly acquired food waste business;
- reviewing succession for senior management roles and considering people development programmes and talent management across the business;
- reviewing the progress of innovation across all aspects of the business;
- considering the Company's Visitor Centre Strategy and proposed capital expenditure on projects at Llys y Fran (Pembrokeshire) and Llanishen/Lisvane (Cardiff); and
- reviewing at a "Strategy Day" dedicated to taking a longer term view of the business, the Company's Statement of Purpose, together with the key challenges it faces in taking steps towards implementing Welsh Water 2050. The issues considered included climate change, the replacement of lead water supply pipes, leakage management, private shared supplies, microplastics in water and wastewater, and additional environmental regulation.

EFFECTIVENESS AND INDEPENDENCE

The composition of the Board was reviewed by the Nominations Committee at its November 2018 meeting, to confirm an appropriate diversity of background, skills expertise and experience, and to plan for Director succession. The composition of the Board Committees was also reviewed and changes to current Membership proposed and approved. The Forward Schedule for future Board Meeting agendas is regularly reviewed by the Board at each Board Meeting so that all members of the Board have the opportunity to suggest items for inclusion.

INDUCTION

We follow a rigorous and transparent procedure for the appointment of new Directors to the Board. The induction process includes access to Board and Committee papers as appropriate, site visits and one-to-one meetings with members of the Executive team and senior managers across the business. Where appropriate, new Non-Executive Directors also attend the Institute of Directors' course for new directors. Directors receive a tailored programme of induction on joining and ongoing educative and information programmes on topics relevant to the operation and governance of the business.

TERM AND RE-ELECTION

Non-Executive Directors are appointed for a three-year period which can be renewed for up to two further periods of three years. In any event, no Non-Executive Director can serve more than 10 years under the terms of our Articles. In addition, each Director formally seeks re-election every year by Glas Members at the Annual General Meeting and any Director appointed during the year will seek election at the next Annual General Meeting following his/her appointment.

INDEPENDENCE

We consider the independence of our Non-Executive Directors on an ongoing basis and formally on an annual basis. Our Articles contain provisions enabling non-conflicted Directors to authorise conflict situations. Each Director is required to notify the Company Secretariat of any potential issues of conflict which may arise. All of our Non-Executive Directors are deemed to be independent in accordance with the UK Corporate Governance Code and free from any relationship which would compromise their independent judgement.

Our constitutional documents do not set out a particular allocation of time required by Non-Executive Directors to be effective in their roles. However the Nominations Committee reviews the extent to which Non-Executive Directors have the appropriate time to fulfil their role effectively, and considers any proposed new commitments that Non-Executive Directors propose to take on, alongside their existing roles. Board and Committee papers are generally made available for review a week in advance of the relevant meetings and all Non-Executive Directors generally have sight of all Committee papers, even where they are not a member of the relevant Committee. All Directors have access to the Company Secretary at all times and to external advisers if requested.

UK CORPORATE GOVERNANCE CODE PRINCIPLE — 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, Nominations Committee and as part of our annual 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.
- Board and Committee meeting materials are provided 5 business days in advance.
- Our Non-Executive Directors have access to the Company Secretary and external advisors to provide the Board with an external viewpoint.
- 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.

OUR GOVERNANCE FRAMEWORK CONTINUED

UNDERSTANDING THE OPERATIONAL BUSINESS

As part of the ongoing development of our Directors, the Company Secretariat ensures that developments in legislation, corporate governance and reporting are brought to the attention of the Board and its Committees as appropriate. Regular attendance from our Auditors, KPMG, at meetings of the Audit Committee means that Directors are kept up to speed on current developments, including the changes to the UK Corporate Governance Code set out in the Revised Code. This year has seen the continuation of the focus on the PR19 price review process, and attendance at the Board by external consultants and by Peter Davies CBE, the Chair of our Customer Challenge Group.

Site visits undertaken by the Chair of the Board and Non-Executive Directors during the year were as follows:

Date	Location	Attendees
June 2018	Llyn Celyn and Porthmadog Wastewater Treatment Works	Alastair Lyons Joanne Kenrick
	Talybont-On-Usk reservoir	Menna Richards
August 2018	Contact call centre, Linea Felindre Water Treatment Works Cardiff Wastewater Treatment Works Glaslyn Laboratories	Tom Crick
September 2018	Board and Quality and Environment Committee Site Visit – Ferndale and Porth, Rhondda Fach	Alastair Lyons Tom Crick Graham Edwards Joanne Kenrick Menna Richards Anna Walker John Warren
	Talybont-On-Usk and Usk reservoirs	Alastair Lyons Tom Crick
November 2018	Nantgaredig Water Treatment Works and Parc y Splott Wastewater Treatment Works	Menna Richards (accompanying new Glas Members as part of their induction meeting)
December 2018	Prioress Mill Pumping Station and Llanfoist Waste Water Treatment Works	Alastair Lyons
January 2019	Contact call centre, Linea	Alastair Lyons
February 2019	Prioress Mill Pumping Station	Anna Walker John Warren
March 2019	Castell Nos Reservoir Network Alliance	Alastair Lyons

Our governance processes are based on transparency and fairness, underpinning the values of the Group and the Company purpose.

We apply the principles set out in the UK Corporate Governance Code as required by our Licence from Ofwat. Ofwat has also published its Leadership, Transparency and Governance requirements with which we set out to comply. Our statement setting out how we meet these objectives is available on our website

> READ MORE ONLINE AT: DWRCYMRU.COM/INVESTORS

OUR VISION AND CULTURE

Our vision is to Earn the Trust of our Customers Every Day, and 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. Our culture is focused on achieving these two aims and this underpins all the decisions taken by the Board and is based on our Company values of honesty, transparency and excellence in everything we do.

As the provider of an essential public service, good governance is crucial to Earning the Trust of our Customers. The effectiveness of the Board is essential to ensuring the long-term success of the business and there is a clear division of responsibility between the strategic focus of the Board and the Executive responsibility for implementing strategy in the day-to-day running of the business. Whilst the Chief Executive is responsible for leading the business, the Chair of the Board is ultimately responsible for the leadership of the Board and ensuring its overall effectiveness, and the Non-Executive Directors constructively challenge the Executive team.

Individual Directors promote the success of the Company for the benefit of all stakeholders, this being consistent with section 172 of the Companies Act 2006.

The role of the Board is to set the strategy of the Group based on proposals formulated by the Executive team and to review the progress achieved by the management of the business in meeting the agreed strategic objectives. Details of the strategy are set out in the Strategic Report of this Annual Report and Accounts (see page 9). The Board is very mindful of its role as custodians of a long-term business, with an obligation as custodians to ensure that the next generation receives the assets it needs to deliver the Company's purpose.

ACCOUNTABILITY

The combined Board of Glas Cymru and Dŵr Cymru ensures that the Annual Report and Accounts presents a fair, balanced and understandable assessment of the Company's position and prospects.

The Board is accountable to a wide range of key stakeholders including the Glas Members, our investors, customers, colleagues, suppliers, partners, and regulators and its judgements and processes are subject to review by its Auditors, KPMG and the Company Reporter, Jacobs.

WORKFORCE ENGAGEMENT

Our culture is reinforced by direct engagement of the Executive team and Board members with colleagues across the business:

- the Chair of the Board and Non-Executive Directors undertake regular operational site visits and meet teams across the business for informal meetings and lunches/dinners;
- the Chief Executive and members of the Executive team hold monthly telephone conference calls that all colleagues can join to hear updates on business performance and key developments and to ask questions;
- the Operational Leadership Conference was held in September and provided an opportunity for senior managers to consider in detail, and provide feedback on, the implications of Welsh Water's proposed PR19 business plan;

UK CORPORATE GOVERNANCE CODE PRINCIPLE — ACCOUNTABILITY

The combined Board of Glas Cymru and Dŵr Cymru:

- ensures that the Annual Report and Accounts present 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 systems of internal control and risk management.
- has formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

- regular employee "roadshows" - 23 at 12 different locations, attended by around 2,000 colleagues in 2018
- site visits by members of the Executive team, with a particular focus on H&S issues, are held across the business;
- "Employee Engagement Champions" work with the business to respond to local feedback given in the annual Employee Engagement Survey. In 2019-20 it is planned to formalise these meetings to provide an opportunity for Non-Executive Directors to meet with employee representatives (see page 72 - Board Effectiveness review);
- Our Code of Conduct sets out our focus on "doing the right thing" to Earn the Trust of our Customers

OUR GOVERNANCE FRAMEWORK CONTINUED

UK CORPORATE GOVERNANCE CODE PRINCIPLE — REMUNERATION

- We have a Remuneration Committee whose report which is set out in pages 82 to 103.
- 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 as required

and includes reference to our Whistleblowing Policy, which is widely publicised among our colleagues and key contractors and provides an opportunity for colleagues to "speak up" on any issues of concern. All colleagues receive a copy of the Code of Conduct on joining the Company and our Compliance Manager gives a presentation on key aspects of compliance, speaking up and doing the right thing at regular induction training sessions.

The Board maintains oversight of the framework of internal control and risk management, ensures that the Company has the necessary financial resources and human resources to function effectively, and has oversight of the capital projects programme.

REMUNERATION

Executive Directors' remuneration is designed to promote the long-term success of the Company. Performance-related elements of pay are transparent, stretching and rigorously applied, while the Remuneration Committee retains discretion to withhold elements of remuneration in the event that the overall performance of the Group does not justify the pay-out.

There is a formal and transparent process for developing policy on remuneration for Executive Directors which is submitted to Glas Members every three years for their consideration and approval, and for fixing the remuneration of individual Directors and the Chair of the Board. No Director is involved in deciding his/her own remuneration. The remuneration of the Non-Executive Directors (other than the Chair of the Board) is a matter for the Chair of the Board and the Executive Directors.

MEMBERS

As a Group owned by a company limited by guarantee, we do not have shareholders, but our Membership is made up of individuals drawn from across our supply area (or who have a strong connection with it) who carry 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 70 Glas Members[1] are appointed by the Board but are selected by an independent Member Selection Panel which aims to maintain the Members as a balanced and diverse

UK CORPORATE GOVERNANCE CODE PRINCIPLE – RELATIONS WITH SHAREHOLDERS

- We apply the shareholder principles on governance to our Members and (Bond) Investors.
- We have regular dialogue with Members and Investors.
- Our Board uses regular 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.
- Our Group Treasurer is always happy to arrange to meet with Investors where requested. This year the following meeting was made available to all Investors and potential Investors:
- Annual Investor update (London) —11th July 2018

group, broadly reflective of the range of our customer and other stakeholders' interests. The independent Chair of the Member Selection Panel is Sir Paul Silk, who was appointed to the role on 6 July 2018, on the retirement of the previous independent Chair, Glyn Mathias. The other members of the Panel are Menna Richards (a Non-Executive Director with particular responsibility for Members) and Arthur Walford (former Company Secretary of Bupa Plc).

Members are invited to our AGM and a second Members' meeting each year at which the

Executive team present an update on the Group's performance and strategy. We also hold two quarterly regional Members' meetings each year which are held at various locations across our supply area, which provide a more informal opportunity to gain insight into our working sites and meet local teams. Members are also invited to other meetings and workshops on an ad hoc basis throughout the year. During 2018-19, Members were invited to a workshop to launch our strategy to support vulnerable customers and to a site visit to our education centre at Cilfynydd, Rhondda.

During 2018-19, two Members retired, four Members stepped down and 11 new Glas Members were appointed following an advertised, open recruitment process with interviews held in Cardiff and Carmarthen. An induction day was held in West Wales and included visits to Nantgaredig Water Treatment Works and Parc y Splott Wastewater Treatment Works.

RELATIONS WITH GLAS MEMBERS AND INVESTORS

The Company Secretariat maintains a regular dialogue with Glas Members, in addition to the regular meetings and events referred to above.

The Treasury team ensure that our debt investors are kept 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 debt investors, and, where appropriate, takes into account the views expressed by them on issues affecting the Company.

This year's Investor Meeting will be held on Wednesday 10 July at the Apex Hotel, London, from 08:30- 11.00.

AGM 2019

The Annual General Meeting of Glas Cymru Holdings Cyfyngedig will be held on Friday 5 July at the Crowne Plaza Hotel, Chester from 09:30-13:00.

HOW WE MEET THE PROVISIONS OF OFWAT'S GUIDANCE ON BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

Ofwat published its revised Guidance on Board Leadership, Transparency and Governance in April 2019. These build on the 2014 Guidance and we consider that we meet all four of the Objectives as follows:

1. Purpose, Values and Culture – "The regulated company board establishes the company's purpose, strategy and values, and is satisfied that its culture reflects the needs of all those it serves." - Please see page 9 (Chief Executive's Message) for details of our Company Purpose and page 66 of this Governance Report for details of the Vision and Culture that underpin decision-making and are monitored by the Board. The Company Direction and Performance Statement sets out how the Company has set its aspirations and performed for all those it serves (page 56).

2. Standalone Regulated Company - "The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term." - We have an identical Board of Directors for our holding company, Glas Cymru Holdings Cyf., and for our regulated Company, Dŵr Cymru Cyf. There is an identity of interests between the two companies because our sole focus is on providing essential services to our customers at the lowest possible cost. This Governance Report sets out in detail the role of the Board and those matters delegated to Committees, all of which report into the Board of the regulated Company.

3. Board Leadership and Transparency - "The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions." We publish the following information in this Report: - explanation of group structure (page 59; - explanation of dividend policy (page 107); explanation of principal risks (page 48); details of Board and Committee Membership, meetings, attendance (page 63); explanation of executive pay policy (page 84).

4. Board Structure and Effectiveness - "Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs." Please see page 71 for our analysis of the balance of skills, independence and knowledge of the company on our Board, which has a majority of Non-Executive Directors. Information about the independence and objectiveness of our Directors can be found on page 65.

NOMINATION COMMITTEE REPORT

MEMBERSHIP AND MEETING ATTENDANCE:

Alastair Lyons (**Chair**), Graham Edwards, Menna Richards, Chris Jones.

> READ MORE ABOUT MEETING ATTENDANCE ON PAGE 63

The Company Secretary generally attends all meetings of the Committee. By invitation of the Committee Chair other individuals such as the Head of HR, other senior managers or external advisers may be invited to attend for all or part of any meeting, as and when appropriate.

PRINCIPAL RESPONSIBILITIES

The Committee meets the Corporate Governance Code requirement for a majority of members of the Committee to be independent Non-Executive Directors. The role of the Committee is to review the structure, size and composition of the Board and where appropriate to recommend changes; identify, and nominate for the approval by the Board, candidates to fill Board vacancies; to evaluate the balance of skills, experience, knowledge, independence and diversity of members of the Board and its Committees; and to review the appropriateness of Non-Executive Directors taking additional appointments, having regard particularly to their impact on the time available for Company business.

ACTIVITIES DURING THE YEAR

The 2018 Board and Committee Effectiveness Review identified the development of Board and Executive team succession planning as an area of sustained focus. Following receipt of this feedback, the Nominations Committee met in November 2018. The topics discussed at this meeting included:

- succession planning for Non-Executive Directors and consideration of order of appointment and retirement of Board Members;
- appointment of a firm of recruitment consultants to lead the search for a replacement for Menna Richards, who is due to retire as a Director at the AGM in 2020;
- membership of Board Committees; and
- review of current Directors of all Group companies.

The Committee discussed the process for appointing a new Non-Executive Director at its meeting in May 2019.

Other issues relevant to the Committee's agenda which have been discussed with the Chair and at Board Meetings during the year include:

- ongoing independence of Non-Executive Directors;
- attendance record of individual Directors and whether there are any capacity issues given current other commitments;
- diversity in recruitment and retention of Board and Glas Members, the Executive team and senior management roles; and
- a review of the effectiveness of the Board and its Committees against their terms of reference and the results of the 2019 Board and Committees Effectiveness Review.

Looking ahead, the focus of the Committee's meetings for the remainder of the calendar year will be to progress the recruitment of Menna Richards' successor.

In the opinion of the Nominations Committee, the Board currently benefits from the diverse range of skills and experience of our Non-Executive Directors. In addition to chairing or being a member of a Committee of the Board, each Non-Executive Director commits additional time to the Company, in relation to the following areas:

Alastair Lyons
Close support to Executive Directors, drawing on his extensive commercial experience in large customer-facing and operationally complex businesses.

Menna Richards
Communications, diversity and Member relations.

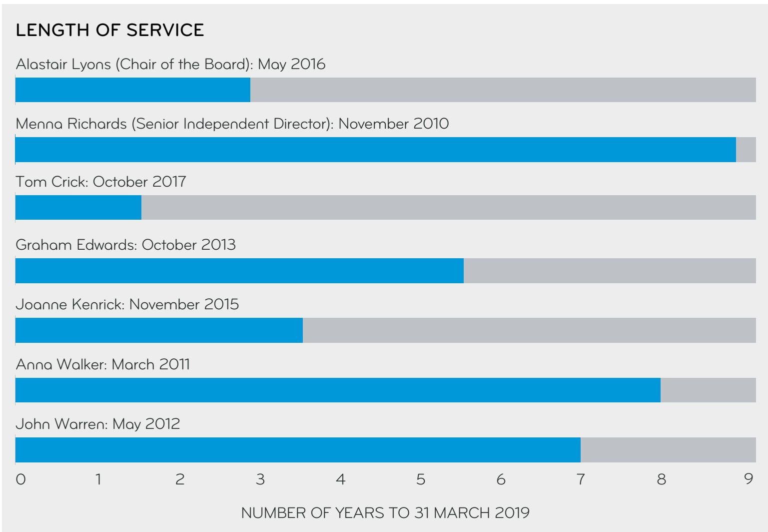
Tom Crick
Data science and technology project support, education and Welsh Government policy.

Graham Edwards
Operational, regulatory and HR issues.

Joanne Kenrick
Marketing, commercial and customer service.

Anna Walker
Customer service, regulation and remuneration policy.

John Warren
Finance, governance and audit.



NOMINATION COMMITTEE REPORT CONTINUED

BOARD EFFECTIVENESS REVIEWS

In line with the requirements of the UK Corporate Governance Code, we carry out an annual Board and Committee Effectiveness Review. Every three years this review takes the form of an independent external review, our next such review being next year. This year, the review has taken the form of an online Effectiveness Survey completed by Members of the Board and also by regular attendees at Board and Committee meetings. The survey results were then reviewed in meetings held by the Chair of the Board with each Director. Results were collated and proposals to address areas of potential improvement were reviewed by the Board at the May 2019 Board Meeting. The Senior Independent Director met with the other Non-Executive Directors and the Executive Directors to conduct the review of the performance of the Chair of the Board.

This year, the feedback from Board and Committee members was very positive, but with some suggestions for further enhancement and improvement. The key conclusions of our Board Effectiveness review were:

FOCUS OF BOARD MEETINGS:

- the Company Secretary would seek to coordinate further opportunities for external speakers to lead discussion at Board Meetings;
- agendas for Board Meetings to be reviewed to consider whether there are areas for improvement;
- sector reports to be circulated to the Board on a more regular basis.

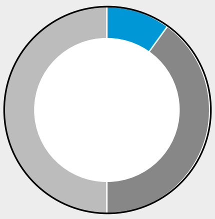
FORMAT OF BOARD MEETINGS:

- further guidance to be given to senior managers giving presentations to the Board;
- Company Secretary to review schedules for Board and Committee meetings to consider possibility of rescheduling timings for Committee and Board meetings.

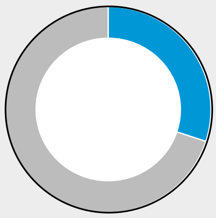
WORKFORCE ENGAGEMENT:

- additional opportunities to be added to the schedule of site visits for Non-Executive Directors to enable them to attend meetings with the Employee Engagement champions at various sites across the supply area. Discussion at these meetings will include covering strategic issues which are on the current Board agenda.

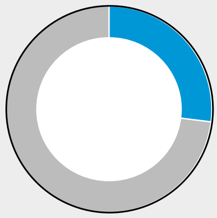
AGE OF THE DIRECTORS



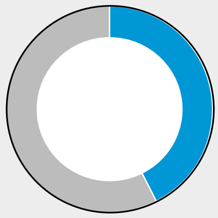
THE BOARD



EXECUTIVE TEAM



SENIOR MANAGEMENT



DIVERSITY

30% of our Board and 27% of our Executive team are women, whilst in the wider workforce, of those senior managers reporting directly to a member of the Executive team, 42.5% are women.

We also note the direction of travel following the recommendations proposed by the Hampton Alexander Review which encourages companies to increase the percentage of women on boards to 33% by 2020 and of the Parker Review which focuses on increasing the ethnic diversity of boards by 2024. Whilst we are fully supportive of the work of both the Hampton Alexander Review and the Parker review we do not believe it is appropriate to commit to setting any specific targets at the present time.

That does not mean we are complacent in these areas where we know we can improve our diversity and inclusion. Our Board Diversity statement is published on our website www.dwrcymru.com/en/Company-Statements.aspx and our Corporate Social Responsibility section (page 108) sets out in detail our plan to continue to improve the diversity of our Board and our workforce to ensure that the individuals working for us are truly representative of the communities that we serve.

Alastair Lyons CBE
Chair of the Nomination Committee

6 June 2019

AUDIT COMMITTEE REPORT

MEMBERSHIP AND MEETING ATTENDANCE:

John Warren (**Chair**), Graham Edwards, Joanne Kenrick, Anna Walker

> READ MORE ABOUT MEETING ATTENDANCE ON PAGE 63

The Audit Committee is chaired by John Warren, formerly Finance Director for WHSmith and currently also Chair of the Audit Committee at Greencore Group plc, 4imprint Group plc and Bloomsbury Publishing Plc. He is considered by the Board to have recent and relevant financial experience.

All Members of the Committee are independent Non-Executive Directors and the Board is satisfied that the Committee as a whole has sufficient sectoral experience and experience of financial matters.

Other regular attendees at meetings of the Audit Committee include the Chief Executive, the Finance Director, the Head of Business Assurance (Internal Audit), the Company Secretary and the Group's External Auditors.

The Committee is supported by the External Auditors, KPMG LLP, who were appointed in September 2015 for a period of up to five years.

PRINCIPAL RESPONSIBILITIES

The Board has delegated responsibility to the Committee to monitor:

- the integrity of the Group's financial statements;
- the effectiveness of our internal control systems; and
- the effectiveness, performance, objectivity and independence of the internal and external Auditors.

ACTIVITIES DURING THE YEAR

The Committee met on five occasions in 2018-19, and following the financial year ended 31 March 2019, the Committee met on a further two occasions as in previous years.

FAIR, BALANCED, UNDERSTANDABLE

The Committee critically reviewed a draft of the Annual Report for 2018-19 in order to ensure that it presented a "fair, balanced and understandable" assessment of the Company's financial status, in accordance with the UK Corporate Governance Code.

NON-AUDIT SERVICES AND FEES

Our policy is that the External Auditors will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy. All non-audit fees paid to External Auditors must either be approved by the Committee in advance or in the event this is not possible, approved by the Committee Chair and then reported to the Committee at the next meeting. During the period 2018-19 audit fees for the Group's financial statements totalled £170,000 (2018: £159,000), fees for other audit-related assurance services were £128,000 (2018: £149,000) and fees for other non-audit related services amounted to £150,000 (2018: £203,000). For further details, see note 3 to the Financial Statements, page 143.

VIABILITY STATEMENT

The Group's 2019 Long-Term Viability Statement is set out at page 52. Following consideration, 11 years has been deemed an appropriate period of time over which to assess the viability of the business.

EXTERNAL AUDIT

KPMG presented their audit plan for the 2018-19 financial year to the Committee at the November meeting and have reported on progress against it at subsequent meetings of the Committee. They highlight changes in governance and accounting and tax regulation that will impact on financial reporting.

The Committee assesses the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year.

INTERNAL AUDIT

The Head of Business Assurance presented his proposed internal audit plan for the financial year at the February meeting of the Committee and reports regularly on progress against the plan and, in detail, on any audit reports with a less than "Satisfactory" outcome. Management responses to unsatisfactory audits are discussed by the Committee and subsequently kept under review to ensure progress is made to remedy the control weaknesses. Where there are unsatisfactory audit outcomes the business area is reviewed again by Business Assurance once the remedial action has been completed.

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs including the ongoing audit reports received, the Committee's interaction with the Head of Business Assurance, updates at each meeting on progress against the internal audit plan as well as any other periodic quality reporting requested.

WHISTLEBLOWING

The Head of Business Assurance also regularly presents a Whistleblowing Report to the Committee in closed session, which included details of any new public interest disclosures made or referred to the Internal Audit function, and the outcomes and, more generally, the "lessons learned" from the investigation of such allegations.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Committee received regular reports on systems of internal control and risk management, in particular on data protection, disaster recovery and cybersecurity, and on the progress of programmes to improve compliance and internal controls across the business.

KEY JUDGEMENTS

During 2018-19 the Committee considered the following specific issues in relation to financial reporting:

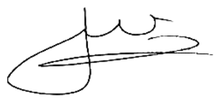
- Provision for impairment of receivables – the approach to setting the bad debt charge was reviewed in detail, and the Committee concluded that the decrease in bad debt charge and bad debt provision were appropriate.
- Accuracy of the defined benefit pensions assets and liabilities assumptions – as in previous years, the Committee reviewed the assumptions in relation to the discount and inflation rates, concluding that overall they were within the range of acceptable assumptions.
- Classification of costs between operating expenditure and capital expenditure – this was reviewed in detail and was considered to be appropriate.
- Measured income accrual - the Committee considered the increase in the accrual and noted that it is largely as a result of new metered customers.

These matters are discussed in more detail in the auditors' report on page 122.

OTHER MATTERS

During the year the Committee considered certain policies and procedures and were satisfied that these were appropriate and approved amendments, as necessary. These included the Code of Conduct, Whistleblowing policy, Treasury and Taxation policies, Supplier Payment Terms and the Internal Audit Charter.

The Committee considered developments under the 2018 UK Corporate Governance Code and reviewed its terms of reference and effectiveness. That review concluded that the Committee was working well and had performed effectively during the year.



John Warren
Chair of the Audit Committee

6 June 2019

QUALITY AND ENVIRONMENT COMMITTEE REPORT

MEMBERSHIP AND MEETING ATTENDANCE:

Graham Edwards (**Chair**), Tom Crick, Chris Jones, Joanne Kenrick, Alastair Lyons, Peter Perry

> READ MORE ABOUT MEETING ATTENDANCE ON PAGE 63

INDEPENDENT SCIENTIFIC ADVISERS:

Steve Brown (Environment), Julian Dennis (Water)

The Company Secretary attends all meetings of the Committee. By invitation of the Committee Chair other individuals such as the Finance and Commercial Director, Managing Directors of Water and Wastewater, Head of Drinking Water Quality and Director of Environment may be invited to attend for all or part of any meeting, as and when appropriate.

PRINCIPAL RESPONSIBILITIES

The Board has delegated responsibility to the Committee for reviewing and monitoring the following strategic risk areas:

- health and safety of colleagues, contractors and the public;
- major incidents;
- compliance with environmental regulation;
- failure to meet operational performance targets;
- deterioration of strategic assets; and
- public health responsibilities.

The Committee is responsible for scrutinising operational performance and assessing the appropriateness of improvement strategies for Welsh Water's water and wastewater activities.

The Committee also:

- Reviews, monitors and influences the health and safety management plan and its delivery.
- Meets with key stakeholders such as the Chief Inspector of DWI and directors from NRW.
- Ensures that Welsh Water fulfils its public health responsibilities and the provision of safe, clean drinking water and wastewater sanitation in line with all relevant standards.
- Ensures the Company has adequate emergency and security arrangements in place in line with relevant statutory guidance such as Critical National Infrastructure (CNI) and Security and Emergency Measures Directive (SEMD) requirements.
- Reviews and influences the Company's non-financial audit programme and receives the findings of audit reports relating to water and wastewater service provision.
- Constructively challenges the Executive team to ensure continuous improvement in operational performance and to develop programmes for the "smart" use of data and the adoption of appropriate innovative techniques and new technology to improve the standards of water and waste water performance and to reduce costs. The Data Science team has worked closely over the past year to create predictive models of potential asset failure.
- Reviews the findings of investigations into any water quality, environmental, safety or customer service failure. Serious Incident Reviews are led by the Chief Executive and Managing Director of Welsh Water, who meet with the relevant Managing Director of Water/Wastewater or the Director of Capital Delivery, as appropriate, to conduct the review and then provide detailed reports on the identified root cause(s), any wider implications of the incident and the action plans to address any ongoing issues. During 2018-19, Serious Incident Reviews were carried out in relation to non-compliance at Eign Wastewater Treatment Works, pollution incidents at Felindre Water Treatment Works and Five Fords Wastewater Treatment Works. In addition, the DWI is currently investigating a taste and odour incident during a rezoning exercise at Pontardawe in the summer. The Company is cooperating fully with the DWI in its investigation.

ACTIVITIES DURING THE YEAR

During 2018-19 the Committee's areas of focus have included:

- Quarterly and Annual Health & Safety reporting;
- Outcomes of DWI audit at Bolton Hill Water Treatment Works and action plan for improvement;
- Dam Safety Annual Report;
- Report to Ofwat on the response to Storm Emma and the implementation of the action plan in response;
- Operational and cost impacts of the extended period of low rainfall;
- "Zonal Studies" updates in relation to the mains rehabilitation programme and monitoring performance in relation to customer acceptability in areas where such work has already been carried out;
- Sludge strategy update and Biosolids Assurance certification;
- Update on cryptosporidium risk management;
- Serious Incident Reviews in relation to pollution incidents at Felindre Water Treatment Works and Five Fords Wastewater Treatment Works;
- Considering the customer impact of the rezoning exercise at Pontardawe;
- Conclusions of the SEMD audit;
- Update on Flooding Strategy;
- Effectiveness and terms of reference.

Graham Edwards
Chair of the Quality and Environment Committee

6 June 2019

FINANCE COMMITTEE REPORT

MEMBERSHIP AND MEETING ATTENDANCE:

John Warren (**Chair**), Peter Bridgewater, Chris Jones, Alastair Lyons

> READ MORE ABOUT MEETING ATTENDANCE ON PAGE 63

PRINCIPAL RESPONSIBILITIES

The Finance Committee was established with authority to meet on an ad hoc basis to approve financial decisions required in between Board meetings. By nature therefore, the intention is for this Committee to meet rarely as items are generally planned sufficiently in advance to be dealt with at scheduled Board or Audit Committee meetings.

ACTIVITIES DURING THE YEAR

The Finance Committee met on one occasion in 2018-19 (November 2018), to take decisions in relation to the Security Trustee Inter-creditor Document proposal to enable debt currently held in Dŵr Cymru (Financing) Limited, a Cayman Islands registered company, to be transferred to a new Group company registered in England and Wales.

Members of the Committee and the Board have subsequently reviewed and approved updated Committee terms of reference.

John Warren
Chair of the Finance Committee

6 June 2019

TECHNOLOGY COMMITTEE REPORT

MEMBERSHIP AND ATTENDANCE:

Tom Crick (**Chair**), Peter Bridgewater, Joanne Kenrick, Alastair Lyons, Peter Perry, John Warren

> READ MORE ABOUT MEETING ATTENDANCE ON PAGE 63

PRINCIPAL RESPONSIBILITIES

The Technology Committee was established by the Board in Autumn 2018 to allow detailed consideration of the development and subsequent implementation of the Group's Digital Strategy to support its ambition to provide better customer service at lower cost. During the year, the Committee met on two occasions.

ACTIVITIES DURING THE YEAR

The agendas for the two meetings that have taken place in 2018-19 included:

- Presentations on various aspects of the Group's Information Technology and Operational Technology provision;
- The development of the Group's Digital Strategy;
- The Group's Data Strategy, including the role of the Data Science team in creating innovative and practical solutions to business-led issues; and
- Effectiveness and terms of reference.

During the current year, the Committee intends to focus on defining the component elements of the Digital Strategy to enable these to be presented to the Glas Board for approval.

In March 2019, two external speakers from differing IT-related backgrounds were invited to address the Board over dinner on the implementation of a Digital Strategy in various businesses they had worked alongside. We intend to follow this up with opportunities to hear from other relevant subject matter experts in an informal setting, to which the whole Board will be invited.

Professor Tom Crick MBE
Chair of Technology Committee

6 June 2019

REMUNERATION COMMITTEE REPORT

PART 1: COMMITTEE CHAIR'S LETTER

MEMBERSHIP AND MEETING ATTENDANCE:

Anna Walker (**Chair**), Alastair Lyons, Menna Richards, John Warren

> READ MORE ABOUT MEETING ATTENDANCE ON PAGE 63

Dear Glas Members:

On behalf of the Board and Remuneration Committee I am pleased to present the Directors' Remuneration Report for 2018-19.

PRINCIPAL RESPONSIBILITIES

The role of the Committee is to recommend to the Board and to Glas Members for approval, and to keep under review, the Remuneration Policy as it applies across the business as a whole. The Remuneration Committee also determines the Executive Directors' Remuneration Policy and sets remuneration for the Chair of the Board, the Executive Directors and the Executive Team. In exercising this responsibility, the Committee has oversight of workforce Remuneration Policy and related policies, and of the alignment of incentives and rewards with the Company's culture and purpose, taking these points into account when setting the Policy.

ACTIVITIES DURING THE YEAR

This year the Remuneration Committee has met more often than usual, eight times in all, and has also attended two workshops hosted by our remuneration advisers, Mercer. In addition to carrying out the usual business of the Committee as detailed below, we have begun work on reviewing the Executive Directors' Remuneration Policy for AMP7, and considering how the principles of this policy will be applied across the wider business.

For the first time we have held a private session with Non-Executive Directors and Glas Members at the December Members' meeting, to review remuneration principles, the outputs of our benchmarking exercise for Executive Directors' remuneration and to consider the key principles which will underpin the AMP7 Remuneration Policy.

THE REMUNERATION COMMITTEE'S AGENDA IN 2018-19

During the year, the Committee's activities have included:

- Wider consideration of remuneration trends and best practice;
- Setting "stretch" performance targets for Executive Directors and monitoring progress against these;
- Reviewing the target remuneration for members of the wider Executive team and benchmarking remuneration;
- Reviewing the salaries of the Executive Directors and the Chair of the Board's fee, and considering recommendations for the annual review;
- Assessing performance achieved against the measures attached to the Annual Variable Pay Scheme (AVPS) and Long Term Variable Pay Scheme (LTVPS) and agreeing awards to be made to participants;
- Reviewing the Committee's effectiveness and terms of reference.

During the year the Committee has also undertaken a detailed review of remuneration issues to ensure our Remuneration Policy is fit for purpose in AMP7. In considering best practice, we have had regard to the revised guidance from Ofwat,[1] and the updated UK Corporate Governance Code 2018 (the "Revised Code") which will formally apply to our annual reporting for the financial year 2019-20 onwards.

We consider we already have a transparent and fair remuneration policy with an emphasis on rewarding the achievement of long-term objectives. Our intention for AMP7 is to continue to include both fixed and variable elements of pay, the latter based on performance-related objectives reflecting our Welsh Water 2050 and AMP7 objectives, with targets linked to, amongst other things, exceptional customer service.

1. https://www.ofwat.gov.uk/publication/board-leadership-transparency-and-governance-principles/

REMUNERATION PRINCIPLES

In 2015-16 the Committee agreed the key principles that it would apply to its work which were discussed with Glas Members. These are set out below, together with the additional Principle added by the Committee this year.

GLAS GROUP REMUNERATION PRINCIPLES

1. Remuneration should reward/incentivise the long-term interests of the business and reflect its agreed future strategic approach.
2. Remuneration should help align the interests of directors and employees with the business' customers.
3. Variable remuneration should be focused on the issues of key concern to the business – water and environmental quality, customer service and financial performance.
4. The calibration of remuneration should reflect Welsh Water's aim to be one of the best performing companies in the sector.
5. Remuneration targets should be stretching both in relation to past performance and in comparison with other companies in the sector. Where possible, they should be hard numbers which can be audited. While some are annual, they should also align with the business' strategic and regulatory objectives.
6. Remuneration is structured to incentivise management in the absence of shareholders and share option schemes.
7. Remuneration should be fair and competitive both in relation to the sector and internally so as to help attract and retain high calibre individuals.
8. A significant proportion of remuneration for the Executive directors should be variable (a 60/40 split fixed/variable is the current stated goal) so as to achieve the right balance in relation to performance and risk taking.
9. The remuneration structure should be sufficiently clear so that those affected by it understand what it is aiming to achieve.
10. Remuneration will be transparent to Glas Members and subject to their regular approval.
11. (New principle discussed with Members in December 2018) Remuneration should take account of the company's not-for-shareholder corporate structure.

We have considered with Members the impact of the Company's geographic location and its not-for-shareholder constitution on Executive Director pay, and have concluded that we should add a new principle to reflect the not-for-shareholder element to the Remuneration Principles (as set out above) previously considered with Members.

The principal elements of this review of our Remuneration Policy were as follows:

- Detailed review of the structure and content of the current Remuneration Policy, and its relevance for 2020-25 including in particular the AVPS and LTVPS elements of the scheme;
- Considering the appropriate benchmarking comparators for the Executive Directors and the wider Executive team;
- Considering how best to structure long-term incentives to motivate Executive Directors in the longer-term interests of the Company;
- Presenting the key findings from this wider review of the approach to remuneration to Glas Members at the December 2018 Members' Meeting.

The Committee focused on benchmarking Executive Directors' remuneration against the water and sewerage companies in England and Wales and against other not-for-shareholder organisations. The Committee concluded that a 15% discount should be applied against the benchmark for the Executive Directors, to reflect differences in pay between other not-for-shareholder organisations and comparable shareholder-owned entities. However, as regards the role of the Chief Executive, even with this discount, the benchmarking showed that his remuneration was significantly lower than CEOs of most other Water and Sewerage companies.

The Remuneration Committee also reviewed the Chair of the Board's fee in March 2019 and concluded that this should also be subject to a 15% discount against the benchmark, given the conclusions reached in relation to Executive Directors. Those responsible for the fees payable to Non-Executive Directors, being the Chair of the Board and the Executive Directors, concluded that the benchmarking information should also be subject to a 15% discount and this was approved by the Board (Non-Executive Directors abstaining from the vote) on 7 March 2019. The appropriate benchmark comparators for Chair of the Board and Non-Executive Director fees will be considered in April 2020 once the data for 2018-2019 is available. In the meantime, the fees for the Chairman and Non-Executive Directors have been frozen for 2019-20 to take account of the discount.

REMUNERATION COMMITTEE REPORT

PART 1: COMMITTEE CHAIR'S LETTER CONTINUED

THE ROLE OF GLAS MEMBERS

Glas Members perform an essential governance function for the Group in the approval of remuneration policies.

Members approve the Remuneration Policy of the Board by binding vote at least every three years (or where any significant change is proposed). This is in accordance with the remuneration reporting requirements for UK quoted companies. Members approved the current Remuneration Policy at the 2015 AGM and reapproved it for a further period at the 2018 AGM. The Annual Report on Remuneration details how the Policy has been implemented each year and is subject to an advisory vote by Members. At the 2018 AGM, 98% of Glas Members voted in favour of the Annual Report on Remuneration.

IMPLEMENTING THE AMP6 REMUNERATION POLICY

Our approach to remuneration during AMP6 is set out in the Remuneration Policy which was approved by the Glas Members at the 2015 AGM, and re-approved for a further period at the 2018 AGM.

Members will be asked to approve the Policy for a further year at the 2019 AGM, as a continuation of the current policy including a specific amendment to the LTVPS opportunity.

It is the Committee's intention to present the Remuneration Policy for AMP7 to the 2020 AGM for approval.

Executive Directors' remuneration is intended to be fair and competitive in relation to the sector. Pay comprises both fixed and variable pay in order to incentivise delivery of short and long-term objectives. It takes account of the Group's not-for-shareholder constitution and founding principles.

Salaries for Executive Directors are reviewed annually and generally increased in line with the rest of the workforce. The next salary review will take place in March 2020.

Short and long-term performance-related pay for Executive Directors is focused on meeting performance targets. A performance-related element of annual pay is paid to all non-probationary colleagues across the business and is based to varying degrees on the same performance scorecard as for the Executive Directors.

The Committee's intention is that pensions contributions as a percentage of salary should be broadly in line across the whole workforce. Former members of the Defined Benefit pension scheme (which closed to future accrual on 31 March 2017) benefit from enhanced contributions to the Defined Contribution scheme until 31 March 2020. A small number of members of the ESPS section members continue within the Defined Benefit scheme (see disclosure on page 138 of the Financial Statements).

CHANGES TO THE EXECUTIVE DIRECTORS' REMUNERATION IN 2019-20

Having concluded that the role of Chief Executive is currently significantly under-remunerated after allowing for the 15% discount to reflect the Group's not-for-shareholder corporate structure, the Committee has resolved to implement a 2% above-inflation salary increase for the Chief Executive this year.

The Committee further resolved to close the gap through increasing the long term performance based opportunity. Therefore, an increase in the potential maximum LTVPS opportunity for the CEO to 100% of base salary will be proposed to Members at the 2019 AGM, to take effect from 1 April 2019. However, the current Chief Executive, Chris Jones, has declined to accept any grant of LTVPS in excess of 60% of base salary.

Finally, given that Ofwat has ceased to use the Service Incentive Mechanism (SIM) to measure customer service, the Committee has resolved to replace SIM as the customer service satisfaction target for 2019-20 with Ofwat's proxy SIM measure for 2019-20, as this is likely to allow the best comparison over the current three-year period of the LTVPS scheme (see note on page 100).

1. https://www.dwrcymru.com/en/Company-Information/Business-Planning/Welsh-Water-2050.aspx

CONTENT OF THE DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report includes:

- A Report on Remuneration Policy (pages 84 to 87). Members will be asked to re-approve the Policy at the 2019 AGM for a further year, including an increase in the LTVPS opportunity for the Chief Executive role (see note on page 82). A new policy will be proposed at the 2020 AGM, to take effect from April 2020, being the start of the next price control period.
- An Annual Report on Remuneration (pages 89 to 100) which describes how the Remuneration Policy was implemented during 2018-19 and how we intend to apply it during 2019-20. This will be put to an advisory Member vote at the 2019 AGM.

In preparing the Annual Remuneration Report, the Committee has taken into account Ofwat's guidance on transparency in its Regulatory Accounting Guidance 3.09, including the requirement to include a note which describes the link between Directors' pay and standards of performance as required by Section 35A of the Water Industry Act 1991 (as amended by Section 50 of the Water Act 2003) – (see pages 89 to 93). It has also considered the Objectives set out in Ofwat's Guidance on Transparency, Leadership and Governance, and the Revised Code.

Anna Walker

Anna Walker CB
Chair of the Remuneration Committee

6 June 2019

REMUNERATION COMMITTEE REPORT

PART 2: POLICY REPORT

This section sets out the detail of the Remuneration Policy approved by the Members in 2015 and re-approved in 2018. We propose to continue this policy for a further year, subject to the specific changes outlined in Part 4. The aim of Welsh Water's Remuneration Policy is to promote the long-term success of the Company and to retain and incentivise the Executive Directors to deliver strong and sustainable performance aligned with the Company's long-term objectives.

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.

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 (re-approved for a further year in 2018).

The original Policy Report can be found on pages 76 to 78 in the 2015 Annual Report and Accounts on the Company's website: **dwrcymru.com/reports**

The current 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, in order to attract and retain necessary skills and talent;
- performance improvement is encouraged by ensuring that a significant proportion of the total remuneration opportunity is linked to performance, while balancing this with base salary to ensure that undue risk-taking is not incentivised;
- incentives are focused on the outcomes which are considered important for customers and calibrated against the prior year's performance and against the performance of other water companies assessed 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, customer value and financial performance of Welsh Water.

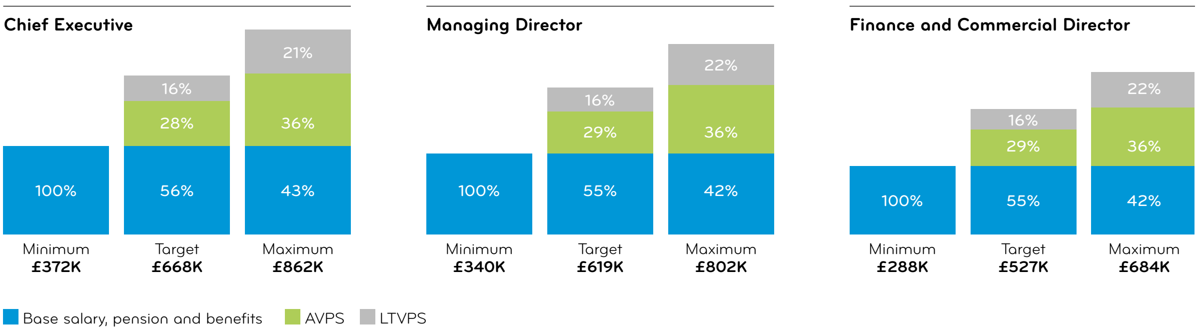
The Group negotiates salaries for the wider workforce with three recognised trade unions by means of a single table approach. The Committee takes note of the process and the agreed increase for the wider employee base and also reviews market practice and conditions.

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 currently formally consult with employees on Executive pay, but does regularly seek the views of colleagues through our Employee Engagement Survey, and through involving the People and Change Director. The Committee also takes into account views expressed in dialogue with Glas Members as well as wider information, benchmarking and best practice.

The table (on the following page) summarises the components of the Executive Directors' remuneration in accordance with the Remuneration Policy.

THE GRAPHS BELOW SHOW FOR EACH EXECUTIVE DIRECTOR FOR 2018-19:

- the minimum level of remuneration payable. This was not dependent upon performance and comprised basic salary, benefits in kind and pension;
- the expected level of remuneration, reflecting a typical level of performance against targets for the AVPS and LTVPS; and
- the maximum level of remuneration, if all AVPS and LTVPS performance targets were fully achieved.



COMPONENTS OF THE EXECUTIVE DIRECTORS' REMUNERATION

	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 to the broader workforce; and • benchmarking against other water and sewage companies in England and Wales.	Annual increases generally linked to those of the wider workforce, though the Remuneration Committee retains discretion for different awards to individuals where appropriate. Current salaries are disclosed in Part 4.	None
Benefits	To provide a market competitive benefits package to help recruit and retain Executives.	Directors are entitled to private health cover and life insurance. The Chief Executive and the Managing Director have a historic entitlement to permanent health insurance. The Managing Director receives a car allowance of £5,000 per annum, based on business need. Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate. The Finance Director receives a travel allowance of £12,000 per annum.	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.	From 1 April 2017 previous active members of the DCWW Defined Benefit Pension Scheme transferring to the DCWW Group Personal Pension Plan (in line with other employees) receive an employer contribution of up to 24% of salary until 31 March 2020 with the opportunity to opt out and receive a cash alternative allowance equivalent to the employer contribution. (see page 93 for more detail) For other 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, adjusted for NI contributions.	Effective from 1 April 2017, the Chief Executive receives a cash alternative allowance of 21.1% of salary and the Managing Director receives a cash alternative allowance of 15.8%. The value is commensurate with previous payments but delivered through an alternative vehicle. The Finance Director receives a cash alternative of 11%.	None

REMUNERATION COMMITTEE REPORT

PART 2: POLICY REPORT CONTINUED

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
AVPS	To incentivise the annual delivery of stretching targets and personal objectives.	AVPS targets reviewed annually by the Committee. Outturn is determined by the Remuneration Committee after the year end based on performance against targets and is: • 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 safety, or the reputation of the Company. AVPS awards may be withdrawn between award and vesting or clawed back for a period of six years from the date of payment.	Maximum 100% of salary.	Measures aligned to the Business Plan themes of Customer, Compliance and Cost with additional annual focus and personal targets (see page 92).
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.	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; and • gross misconduct or reputational damage caused to the Company or Group company. The Committee also retains the discretion to withhold rewards in the event of significant issues affecting safety, or the reputation of the Company, or where there are any other circumstances which cause the Committee to determine, in its discretion, that a reduction to the Vested Amount would be appropriate. LTVPS awards may be withdrawn prior to the payment of the award for a particular financial year or clawed back 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). For the performance year 2019-20 it is proposed that the maximum opportunity for the Chief Executive role be increased from 60% of base salary to 100% of base salary, although the current Chief Executive has declined to accept any award over 60% of base salary.	50% based on relative SIM performance. 50% based on customer value generated (see page 93).

<table>
<tr><th></th><th>Purpose and link to strategy</th><th>Operation</th><th>Opportunity</th><th>Performance metrics</th></tr>
<tr><td>Non-Executive Directors' Fees</td><td>Provides an appropriate level of fixed fee to recruit and retain individuals with a broad range of experience and skills to support the Board in the delivery of its duties.</td><td>The Remuneration Committee determines the fee payable to the Chair of the Board and, separately, the Executive Directors and the Chair of the Board determine 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.

The Committee resolved in March 2019 that .future benchmarking will include a 15% non-shareholder discount</td><td>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.</td><td>None</td></tr>
<tr><td>New Executive Director appointments</td><td colspan="4">Base salary levels will be set to reflect the experience of the individual, appropriate market data and internal relativities. Recent benchmarking shows the Chief Executive role is below the median benchmark even applying a 15% discount for our non-shareholder structure, and the Committee proposes to move towards the discounted median over time.

The policy provides 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 some or all of the incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, will be structured such that the terms of the buyout mirror the form and structure of the remuneration being replaced.</td></tr>
<tr><td>Policy for payments to departing Executives</td><td colspan="4">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 salary in lieu of notice. There is a significant duty of mitigation built into the contract in such circumstances.

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 will be retained in full by the Executive.</td></tr>
</table>

REMUNERATION COMMITTEE REPORT

PART 3: IMPLEMENTATION IN 2018-2019

This section sets out the details of the Executive Directors' and Non-Executive Directors' remuneration for 2018-19. It explains how the Remuneration Policy has been implemented in 2018-19. As well as disclosing remuneration figures for the Executive Directors, it also includes details on performance and the resulting levels of AVPS payout and vesting of LTVPS. Certain disclosures of the detailed information about the Executive Directors' remuneration below have been audited by the Group's independent Auditors, KPMG LLP (as indicated against the relevant tables).

AMOUNTS PAID IN 2018-19

Remuneration payable to the Executive Directors in respect of the financial year ended 31 March 2019 was as follows:

- A base salary (which was increased by 3% in April 2018) plus pension (or equivalent payments) and private health and permanent health benefits;
- Under the AVPS, 2018-19 awards have been made up of:
  - 23% of base salary for performance against the Customer (9.4%) and Compliance (13.6%) elements of the scheme,
  - 16.6% of base salary for performance against the Total Expenditure (Totex) Cost and Bad Debt element,
  - 7.7% for performance against Strategic (Annual Focus),
  - between 15% and 20% for performance against Personal Objectives,

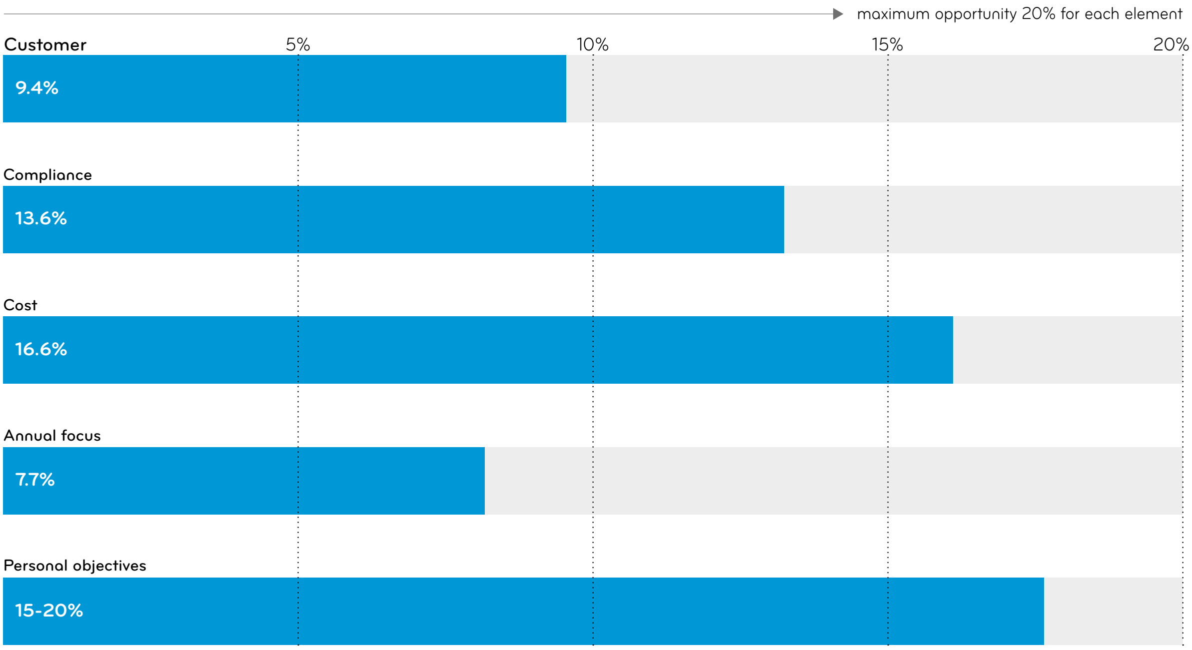
  making a total award of between 62.3% and 67.3% of base salary for each Executive Director.
- Under the LTVPS, 15% payment has been made for performance relating to the Customer Value element of the scheme; 0% (zero) is payable in respect of the Customer Service element of the scheme, although the outcome of Ofwat's SIM performance measure for 2018-19 which will not be known until later in the summer.

The total variable pay award for each Executive Director for 2018-19 was between 77.3% and 82.3% of base salary.

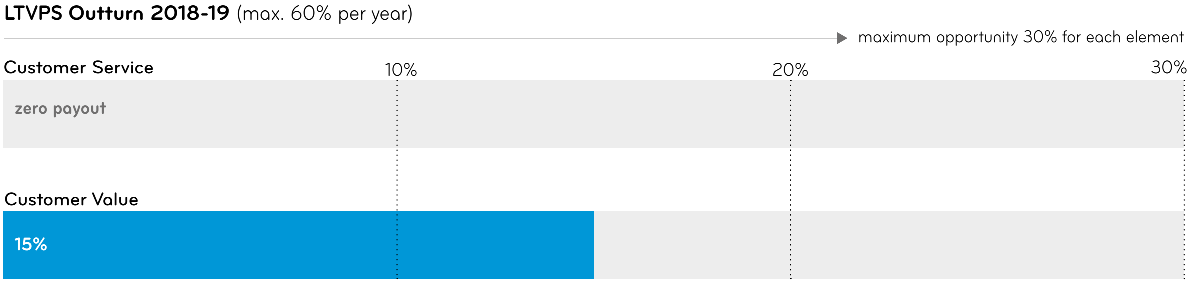
REMUNERATION COMMITTEE REPORT

PART 3: IMPLEMENTATION IN 2018-2019 CONTINUED

AVPS Outturn 2018-19 (max. 100% per year)



LTVPS Outturn 2018-19 (max. 60% per year)



WHAT WAS PAID IN 2018-19 AND LINK BETWEEN PAY AND PERFORMANCE

PAYMENTS MADE TO DIRECTORS IN 2018-19

Figure 1 sets out the Directors' emoluments in respect of the year ended 31 March 2019 in comparison to the year ended 31 March 2018.

FIGURE 1: PAYMENTS AND BENEFITS EARNED BY DIRECTORS IN 2018-19 (AUDITED)

	Salary/Fees		Benefits[1]		Other		AVPS[2]		LTVPS[3]		Pension Cash Alternative		Pension Accruals[4]		Total	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Chris Jones	297,267	306,186	1,250	1,250	–		192,034	206,063	47,563	45,928	62,723	64,605	77,685	(16,574)	678,522	607,458
Peter Perry[5]	260,110	288,400	1,250	1,250	2,500[6]	5,000	168,031	194,093	41,618	43,260	41,097	45,567	221,710*	243,927	736,316	821,497
Peter Bridgewater	240,220	247,427	1,250	1,250	12,000	12,000[7]	150,378	154,147	38,435	37,114	26,424	27,217	–	–	468,707	479,155
Alastair Lyons	215,392	221,900	–	–	–	–	–	–	–	–	–	–	–	–	215,392	221,900
Menna Richards	70,816	72,950	–	–	–	–	–	–	–	–	–	–	–	–	70,816	72,950
Tom Crick	29,925	61,650	–	–	–	–	–	–	–	–	–	–	–	–	29,925	61,650
Graham Edwards	59,850	61,650	–	–	–	–	–	–	–	–	–	–	–	–	59,850	61,650
Joanne Kenrick	59,850	61,650	–	–	–	–	–	–	–	–	–	–	–	–	59,850	61,650
Anna Walker	59,850	61,650	–	–	–	–	–	–	–	–	–	–	–	–	59,850	61,650
John Warren	59,850	61,650	–	–	–	–	–	–	–	–	–	–	–	–	59,850	61,650
Total	1,398,012	1,445,113	3,750	3,750	14,500	17,000	510,443	554,303	127,616	126,302	130,244	137,389	299,395	227,353	2,483,961	2,511,211

Notes to table

Changes of Director: Tom Crick was appointed to the Board on 1 October 2017. The figures above are the amounts paid for his period in office.

The highest paid Director in 2018-19 was Peter Perry who received £821,497 (£736,316 in 2017-18). If changes in pensions accruals are excluded from this calculation, the highest paid Director would be Chris Jones who received £624,032 (£600,837 in 2017-18)

* The figures differ from those in the 2018 Annual Report and Accounts as they include variations in the capital transfer value of retirement benefits.

1. Taxable benefits relate to private health cover.
2. Please see determination of AVPS outcome on page 92. Performance against AVPS targets in 2018-19 resulted in a higher payment than in 2017-18.
3. Please see determination of LTVPS outcome on page 93.
4. Accrued pension benefits for 2018-19 in respect of the (closed) Defined Benefit pension scheme for Chris Jones and Peter Perry are also disclosed separately in Figure 3.
5. Peter Perry was appointed to Managing Director effective 1 October 2017 with a salary increase from £240,220 to £280,000 further increased to £288,400 with effect from 1 April 2018.
6. This represents six months of car allowance at £5,000 per annum as agreed as part of the remuneration package put in place in October 2017.
7. Represents £12,000 travel allowance.

REMUNERATION COMMITTEE REPORT

PART 3: IMPLEMENTATION IN 2018-2019 CONTINUED

DETERMINATION OF 2018-19 AVPS OUTCOME

For 2018-19, the Remuneration Committee measured performance against each target as follows in the table below. Performance in 2018-19 resulted in an AVPS award of between 62.3% and 67.3% compared with an award of between 62.6% and 64.6% for the Executive Directors in 2017-18.

FIGURE 2: AVPS 2018-19 OUTCOME (AUDITED)

Measure	Weighting	Summary of targets (% of salary)	Result	% of maximum
Customer • Business Customer Satisfaction • Customer Acceptability • Reliability of Supply • Properties Flooded in the Year • Net Promoter Score • Complaints	20%	Threshold 5% Target 12.5% Stretch 20%	9.4%	47%
Compliance • Safety of Drinking Water • Treated Used Water • Preventing Pollution • Leakage • Asset Serviceability • Asset Resilience	20%	Threshold 4% Target 12.5% Stretch 20%	13.6%	68%
Cost • Total Company Totex • Bad Debt	20%	Threshold 4.8% Target 14.4% Stretch 20%	16.6%	83%
Annual focus • Reliability of Supply • Customer Acceptability • Treating Used Water	20%	Threshold 4% Target 12% Stretch 20%	7.7%	38.5%
Personal	20%		15-20%	75-100%
Total	100%		62.3-67.3%	

Notes to table: Personal Objectives: The personal objectives (worth up to 20% 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 2018-19.

- Chris Jones' primary personal objective was to submit an ambitious PR19 plan to Ofwat; balancing quality of service, customer bills, financeability and investment towards WW2050 objectives. The Committee assessed that Chris Jones had achieved an outstanding performance against his personal objectives and the payout awarded was 20% of salary.
- Peter Bridgewater's primary personal objective was to oversee the production of a detailed 2025 cost reduction plan. The Committee assessed that Peter had exceeded expectations in relation to his primary personal objective and the payout awarded was 15% of salary.
- Peter Perry's primary personal objectives were to ensure the introduction of a detailed 2025 cost reduction plan and oversee the business integration of the Retail function. The Committee assessed that Peter had achieved an outstanding performance against his primary personal objectives and the payout awarded was 20% of salary.

DETERMINATION OF 2018-19 LTVPS OUTCOME

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 2019 will not be known until later in the year. 25% of this element is payable for ranking 4th, with incremental increases of 25% for ranking 3rd and above. At this time, it is estimated to be ranked fifth, in which case no award would be payable. The actual award will be determined later in the year when full comparative information is published by Ofwat. It should be noted that relatively small differences in SIM outcomes have led to material changes in relative position and, therefore, substantial reward variations in the recent past[1].

For the Customer Value element of the scheme measured from 1 April 2018 to 31 March 2019, an award of 15% of salary (50% of maximum for this element) has been made. This has been based on the Committee's determination that total value generated for LTVPS purposes in the year ended 31 March 2019 was £107m against threshold of £89m, a target of £109m[2] (and a stretch of £119m).

PENSION BENEFITS

For the period until 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.

Pensionable Service stopped accruing with effect from 31 March 2017, however future increases to Pensionable Earnings will be taken into account when calculating benefits. Life assurance cover is also provided at four times Pensionable Salary for death in service, a pension is payable in the event of retirement due to ill health and a spouse's pension is 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 2014-15, 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 Scheme to accrual of Pensionable Service 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 to future service accrual until 31 March 2020.

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

The Chief Executive and Managing Director 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 Scheme membership).

It was, therefore, agreed by the Committee that the respective proportionate enhancements would be provided to the Chief Executive and the Managing Director until 31 March 2020.

Effective from 1 April 2017, the Chief Executive receives a cash alternative allowance of 21.1% of salary and the Managing Director receives a cash alternative allowance of 15.8% of salary. The enhanced payments will only be paid until 31 March 2020. Effective from 1 April 2020, the Chief Executive will receive a cash alternative allowance of 12.9% of salary and the Managing Director will receive a cash alternative allowance of 9.7% of salary.

Changes in the value of pension benefits accrued by the Directors in the Scheme during the year are shown in Figure 3, 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.

1. The outcome for both 2017-18 and 2018-19 has been adversely affected by the relative poorer performance in 2016-17, since then SIM performance has improved markedly. Were the measure to be based solely on 2018-19 performance, the award would have been 15%.
2. Note that the target was misstated as £173m in the 2017-18 and 2016-17 Annual Report and Accounts. The figure of £173m was originally set as the target by the Committee but was amended to £109m in November 2016.

REMUNERATION COMMITTEE REPORT

PART 3: IMPLEMENTATION IN 2018-2019 CONTINUED

FIGURE 3: PENSION BENEFITS

Changes in accrued pensions benefits for the Chief Executive and Managing Director during the year are shown below (audited).

Year ended 31 March 2018 (re-stated)

	Normal Retirement Age	Accrued pension at 31 March 2017 £	Capitalised value of accrued pension at 31 March 2017 £	Revalued capitalised value of accrued pension at 31 March 2017[1] £	Accrued pension at 31 March 2018 £	Capitalised value of accrued pension at 31 March 2018 £	Member contributions paid during the year 2018 £	Pension Input Amount (net of member contributions) 2018[2] £
Chris Jones	60	143,505	2,870,094	2,898,795	148,824	2,976,480	–	77,685
Peter Perry	60	142,346	2,846,920	2,875,390	154,855	3,097,100	–	221,710

Year ended 31 March 2019

	Normal Retirement Age	Accrued pension at 31 March 2018 £	Capitalised value of accrued pension at 31 March 2018 £	Revalued capitalised value of accrued pension at 31 March 2018[1] £	Accrued pension at 31 March 2019 £	Capitalised value of accrued pension at 31 March 2019 £	Member contributions paid during the year 2019 £	Pension Input Amount (net of member contributions) 2019[2] £
Chris Jones	60	148,824	2,976,480	3,065,774	152,460	3,049,200	–	(16,574)
Peter Perry	60	154,855	3,097,100	3,190,013	171,697	3,433,940	–	243,927

In accordance with the approach applied for other employees upon closure of the Defined Benefit pension scheme to future accruals of pensionable service, the pension benefits for Chris Jones and Peter Perry continue to increase in line with increases in their base salary, and these increases are provided for in the Employer Funded Retirement Benefits Scheme (EFRBS) The capitalised value of the accrued entitlement represents the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of a Director's pension benefits.

Benefit notes:

1. Increased by the actual CPI growth figure at the previous September — 1% for the 2018 disclosure period and 3% for 2019.
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 4 and 5 show how our pay awards have compared with performance and by comparing 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 eight years.

FIGURE 4: CUSTOMER RESERVES OVER NINE YEARS TO 31 MARCH 2019

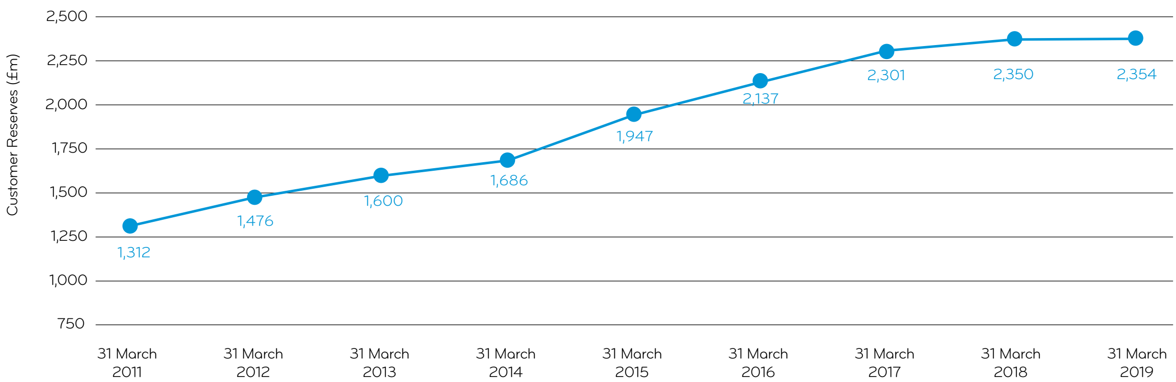


FIGURE 5: OVERALL PAY AND PERFORMANCE

	2012 £	2013 £	2014 £	2015 £	2016 £	2017 £	2018 £	2019 £
Total remuneration for Chief Executive (Chris Jones)	–	–	741,569	973,688	746,430	629,102	678,522[1]	607,458[2]
Total remuneration for Managing Director (Nigel Annett)	677,770	590,210	709,890	–	–	–	–	–
AVPS award (Chris Jones)	–	–	51.1%	79.4%	70.3%	75.4%	64.6%	67.3%
AVPS award (Nigel Annett)	77.6%	60.6%	49.9%	–	–	–	–	–
LTVPS for AMP6[3]	–	–	–	–	65%	65.4%	26.7%	25%
LTVPS for AMP5	40.0%	50.0%	78.6%	90.6%	–	–	–	–

1. Inclusive of pension accrual value (note that this figure was shown net of pension accrual in 2017-18 Annual Report and Accounts).
2. Inclusive of (negative) pension accrual value (total remuneration excluding (negative) pension accrual value = £624,032)
3. LTVPS figures are shown as a percentage of maximum opportunity

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.

REMUNERATION COMMITTEE REPORT

PART 3: IMPLEMENTATION IN 2018-2019 CONTINUED

RELATIVE IMPORTANCE OF SPEND ON PAY

The Remuneration Committee considers the cost of remuneration in relation to other factors such as Company performance. Figure 6 sets out the change in total expenditure, total employee remuneration costs and Customer Reserves in 2019 compared to 2018.

FIGURE 6: RELATIVE IMPORTANCE OF SPEND ON PAY

	2018 £m	2019 £m	Change £m	Change %
Total expenditure[1]	980.7	1,009.2	28.5	2.9%
Employee remuneration costs	150.4	159.6	9.2	6.1%
Customer Dividend	34	40	6	17.6%
Executive Director remuneration costs	1.88	1.91	0.24	1.3%

1. Operational expenditure, capital expenditure and financing costs.

ALIGNMENT OF PAY ACROSS THE GROUP

The Committee recognises that pay should be fair throughout the Group. Therefore, in making decisions in relation to the structure of Executive pay, the Committee takes into account the pay structures throughout the business, in particular noting that the Annual Variable Pay and Colleague Reward scheme for employees are aligned to the same measures as the Executive annual variable pay scheme.

PERCENTAGE INCREASE IN THE REMUNERATION OF THE CHIEF EXECUTIVE

Figure 7 shows the movement in remuneration for Chris Jones as Chief Executive between the current and previous financial year compared with that of the average employee. The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Group.

FIGURE 7: PERCENTAGE CHANGE IN THE CEO'S REMUNERATION COMPARED WITH OTHER EMPLOYEES

	Chief Executive % change from 2017-18 to 2018-19	Employees % change from 2017-18 to 2018-19
Salary	3%	3%
Benefits	0%	0%
Variable Pay	7.3%	(1.5%)

RATIO OF CHIEF EXECUTIVE TO AVERAGE EMPLOYEE SALARY

This ratio uses the figure for total CEO salary included in Figure 1. The average employee salary has historically been calculated using information in the financial accounts: staff costs for the year (including pension costs) divided by average monthly number of people employed. If pension accrual had been included the figure for 2018-19 would have been 13:1 (2017-18: 15:1). For 2020 reporting onwards, the revised Corporate Governance Code provides new methodology for calculating the Chief Executive to average employee pay ratio on a different basis (25th, 50th and 75th percentile). We will report using the government's preferred methodology (Method A) from 2020 onwards.

FIGURE 8: RATIO OF CHIEF EXECUTIVE TO AVERAGE EMPLOYEE SALARY

Chief Executive Remuneration: Average Employee Remuneration (excluding pension accrual)	
2018-19: 13.5:1	2017-18: 13.5:1

REMUNERATION COMMITTEE REPORT

PART 4: IMPLEMENTATION 2019-20

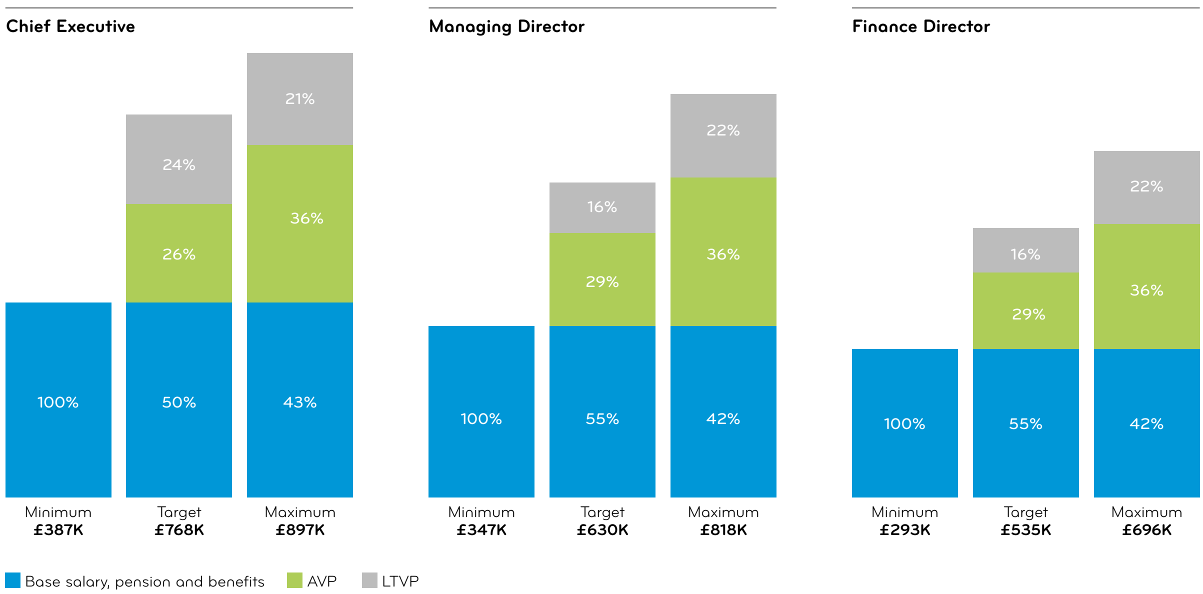
This section sets out the detail of the way that the Remuneration Committee plans to apply the Remuneration Policy in 2019-20. The Remuneration Principles (see page 81) emphasise that the remuneration structure for the Executive Directors and the wider Executive team should align with the interests of the Group, and in particular with the interests of customers, as well as being consistent with our values and policies. This will continue to govern our approach in 2019-20. Key points in relation to the implementation of the Policy in 2019-20 are:

- Salary review (see page 98);
- Under the AVPS the maximum that can be earned in 2019-20 remains 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;
- The LTVPS currently provides that the overall maximum that can be earned per year in the AMP6 five-year regulatory period is 60% of base salary, based on stretching longer-term performance targets.

Half of the LTVPS is subject to Customer Service measures and half to Customer Value measures. At the 2019 AGM the Members will be asked to approve an increase in the maximum available opportunity for the Chief Executive role under the LTVPS from 60% to 100% of base salary, to take effect from 1 April 2019 for the financial year 2019-20. As set out above (page 82), the current Chief Executive has declined to accept any award of LTVPS in excess of the 60% of base salary.

The graphs below show for each Executive Director:

- the minimum level of remuneration which may be payable. This is not dependent upon performance and comprises basic salary, benefits in kind and pension;
- the expected level of remuneration, reflecting a typical level of performance against targets for the AVP and LTVP; and
- the maximum level of remuneration, if all AVP and LTVP performance targets were fully achieved



NOTE: The maximum award payable to the Chief Executive under the LTVP scheme is 100% of base salary. The Chief Executive has declined to accept any award payment in excess of 60% base salary. The illustration reflects this decision.

REMUNERATION COMMITTEE REPORT

PART 4: IMPLEMENTATION 2019-20 CONTINUED

SALARY REVIEW

Following a review in March 2019 the Remuneration Committee set the base salaries for the Executive Directors for 2019-20 (effective 1 April 2019) shown in Figure 9. For the Managing Director and Finance Director this mirrors the 2.1% increase awarded to employees on 1 April 2019 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. Following a benchmarking review of total remuneration for the Executive Directors, the base salary and total reward of the Chief Executive were determined to be significantly below benchmarked market comparators. Consequently an additional increase of 2% to offset a part of this shortfall was approved for the Chief Executive effective 1 April 2019.

FIGURE 9: EXECUTIVE DIRECTORS' BASE SALARIES

	Effective 1 April 2018	Effective 1 April 2019	% Change
Chris Jones	£306,186	£318,740	+4.1%
Peter Perry	£288,400	£294,457	+2.1%
Peter Bridgewater	£247,427	£252,623	+2.1%

FEES PAYABLE TO THE CHAIR OF THE BOARD

The fees payable to the Chair of the Board were reviewed in March 2019 and the Committee resolved that the Chair of the Board's fee should remain unchanged at £221,900 for 2019-20 in accordance with the decision taken in March 2019 to discount the Chair of the Board fee from the benchmark by 15% to recognise the non-shareholder structure of the Group. Fees and benchmark comparators will be reviewed again by the Committee in 2019-20 when the benchmark data for 2018-19 is available.

FEES PAYABLE TO NON-EXECUTIVE DIRECTORS

In March 2019 the Chair of the Board and Executive Directors resolved that the fees for Non-Executive Directors should remain unchanged at £61,650 for a further year in accordance with the decision taken in March 2019 to discount the fees for Non-Executive Directors from the benchmark by 15% to recognise the non-shareholder structure of the Group. The fee for the Senior Independent Director will also remain unchanged at £72,950 for a further year. Fees and benchmark comparators will be reviewed by the Chair of the Board and Non-Executive Directors in 2019-20 when the benchmark data for 2018-19 is available.

ANNUAL VARIABLE PAY SCHEME (AVPS)

The maximum variable pay that Executive Directors can earn under the AVPS in 2019-20 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 2018-19, as illustrated in Figure 10.

FIGURE 10A: ANNUAL VARIABLE PAY SCHEME STRUCTURE 2019-20

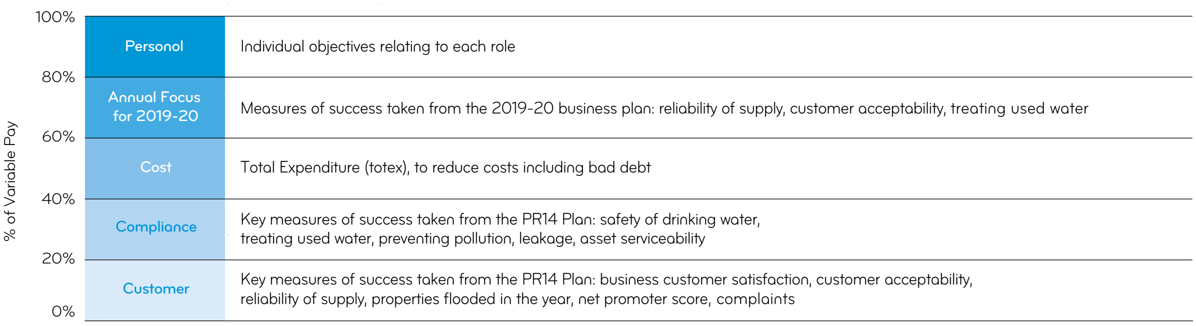


FIGURE 10B: AVPS PERFORMANCE MEASURES

	Customer	Compliance	Cost	Annual Focus	Personal
Performance measures	Key measures of success taken from the 2019-20 Business Plan: business customer satisfaction, customer acceptability, reliability of supply, properties flooded in the year, net promoter score, complaints	Key measures of success taken from the 2019-20 Business Plan: safety of drinking water, treating used water, preventing pollution, leakage, asset serviceability	Key measures of success taken from the 2019-20 Business Plan: totex, bad debt	Measures of success taken from the 2019-20 Business Plan: reliability of supply, customer acceptability, treating used water	Individual objectives relating to each role
Rationale for selected measures	Linked to the 2019-20 Business Plan	Linked to the 2019-20 Business Plan	Linked to the 2019-20 Business Plan	Linked to the 2019-20 Business Plan	Linked to the 2019-20 Business Plan
Performance Period	One year	One year	One year	One year	One year
Performance target	6 measures with total maximum 20% award: – 25% of award payable for achieving threshold performance – 62.5%[1] of award payable for achieving target performance – 100% of award payable for achieving stretch performance	5 measures with total maximum 20% award: – 20% of award payable for achieving threshold performance – 62.5%[1] of award payable for achieving target performance – 100% of award payable for achieving stretch performance	2 measures with maximum 20% award: – 24% of award payable for achieving threshold performance – 72% of award payable for achieving target performance – 100% of award payable for achieving stretch performance	3 measures with total maximum 20% award: – 20% of award payable for achieving threshold performance – 60% of award payable for achieving target performance – 100% of award payable for achieving stretch performance	Variable number of measures with total maximum 20% award

1. The new guidelines from ISS for listed companies limit target bonus to no more than 50% of maximum; although the targets above are higher than this, Executive Director salaries are below median and the Committee is committed to stretching targets and avoidance of extreme or volatile incentive outcomes. The design of the AVPS includes 16 independent measures which makes an extreme outcome less likely.

REMUNERATION COMMITTEE REPORT

PART 4: IMPLEMENTATION 2019-20 CONTINUED

LONG TERM VARIABLE PAY SCHEME (LTVPS)

The maximum variable pay that Executive Directors can earn under the LTVPS is 100% of base salary for the role of Chief Executive and 60% of base salary for the Managing Director and Finance Director[1].

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:

- **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 Transfers to 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; and
- **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 informed by, and rewards, Welsh Water's performance relative to similar companies in the sector. SIM was previously 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 company reported data on customer written complaints and unwanted calls. Ofwat has ceased to use the SIM measure of customer service from April 2019 and will instead use another measure of customer service for household customers, C-MeX (or Customer Measure of Experience). However, for this final year of AMP6 a "proxy SIM" will be calculated by Ofwat for the period 2019-20, and it is expected that this will provide the best comparison with previous years. The Committee therefore resolved in March 2019 to apply the proxy SIM value under the LTVPS for the final year of the scheme.

The LTVPS performance targets reflect the Board's ambition that Welsh Water should rank alongside leading companies in the industry on key measures for customer service and long-term financial efficiency for the benefit of customers.

1. An increase in maximum opportunity from 60% to 100% of base salary is being proposed for the role of Chief Executive. However the current Chief Executive has declined to accept any award in excess of 60% of base salary.

The performance targets under each of the LTVPS awards are described more fully in Figure 11.

FIGURE 11: LTVPS PERFORMANCE MEASURES

	Customer Service	Customer Value[1]
Performance measures	Previously measured by reference to Ofwat's SIM measure. For 2019-20 the Committee resolved to apply Ofwat's proxy 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 important 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 ending with 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]	50% of total LTVPS maximum opportunity. Out of UK's 11 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.	50% of total LTVPS maximum opportunity 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.

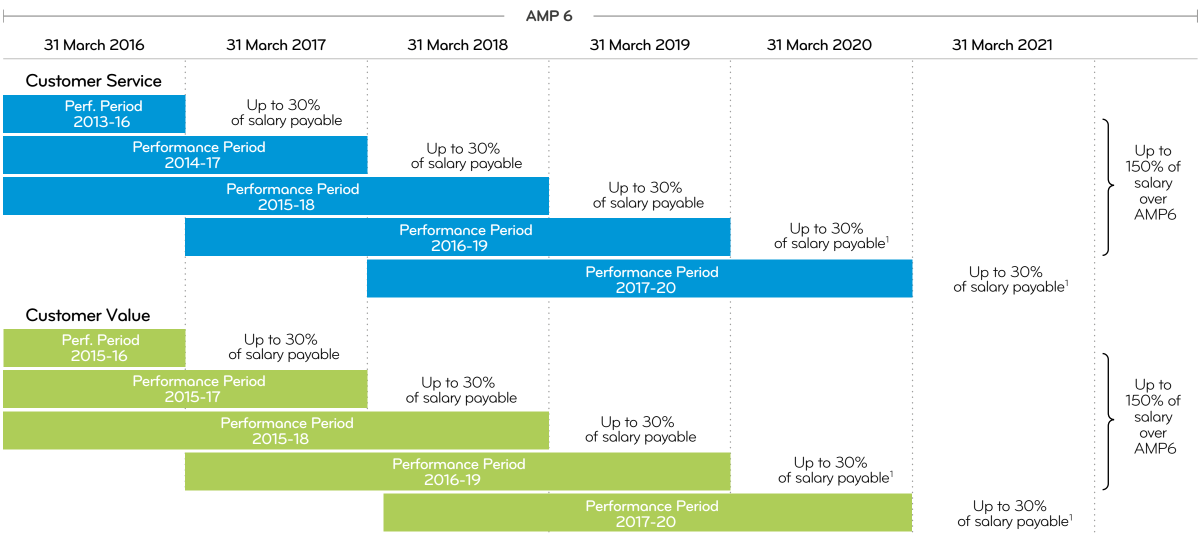
1. The customer value targets may be amended in certain circumstances at the discretion of the Committee. These circumstances include where: (i) there are differences between actual inflation and the assumptions originally made; (ii) there are any other significant external factors which the Committee determines to be outside the influence of the Executive Directors.
2. 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

REMUNERATION COMMITTEE REPORT

PART 4: IMPLEMENTATION 2019-20 CONTINUED

The period over which performance is determined and the potential payment dates over the regulatory period are illustrated in schematic Figure 12. Details of payments made under the LTVPS for 2018-19 are set out on page 90.

FIGURE 12: LTVPS PERFORMANCE PERIOD



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, UK Corporate Governance Code, and IA/ISS Guidelines where appropriate.

The Committee retains discretion, consistent with market practice, in relation to the operation and administration of these schemes.

The scheme rules allow for clawback of variable pay from Directors, either as the withdrawal of an award before it has vested, or as clawback after awards have vested (see further details on page 86).

OVERSIGHT OF REMUNERATION POLICIES FOR THE WIDER WORKFORCE

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

1. Up to 100% of salary payable for the Chief Executive for 2019-20 onwards. Note that the current Chief Executive has declined to accept any payment in excess of 60% of base salary.

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 2019 are as follows:

Chris Jones	4 July 2013
Peter Perry	17 September 2013
Peter Bridgewater	1 September 2014
Alastair Lyons	1 May 2016
Menna Richards	22 November 2010
Tom Crick	1 October 2017
Graham Edwards	1 October 2013
Joanne Kenrick	1 November 2015
Anna Walker	3 March 2011
John Warren	3 May 2012

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 62.

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 Chair of the Board of the Company.

The Chief Executive and the People and Change Director attend meetings of the Remuneration Committee by invitation (except where their own remuneration is discussed). The Remuneration Committee was convened on 8 occasions in 2018-19.

During 2018-19, the Committee received independent advice from Mercer. Mercer 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 received was independent and objective. The fees payable to Mercer for the period 2018-19 totalled £93,000.

DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2019. The performance review of the Company can be found within the Strategic Report on pages 9 to 54. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2019. The Corporate Governance Report set out on pages 58 to 103 is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principle risks and uncertainties facing the Group are set out in the Risk Management section from page 46 to 51.

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 in Note 3.

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%). A reconciliation is provided in Note 5.

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.

Food waste-to-energy plant, Cardiff

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

DIRECTORS' REPORT

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). For further information, please see page 16.

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 (see page 42).

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.

DIRECTORS' REPORT

CORPORATE SOCIAL RESPONSIBILITY

OUR WIDER IMPACT

As one of the biggest employers in Wales and serving 3.1m people across our supply area in Wales and England, we are very aware of our responsibility to our employees and to the wider community. We have set out on page 24 above details of some of the additional work we do in the communities in which we are working.

At 31 March 2019, the Group had 3,630 employees (2018: 3,435). Our success is fundamentally dependent upon our highly engaged and motivated people and we are committed to developing our people to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities that we serve.

IMPROVING THE DIVERSITY OF OUR WORKFORCE

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 we can make that would help overcome or minimise the impact of the disability in the workplace. 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.

EQUALITY, DIVERSITY AND INCLUSIVITY

By engaging with diverse talent, Welsh Water is able to improve access to skills that are in short supply, creating a larger talent pool, and also enhance the Employer of Choice brand. By working to develop a workforce representative of the customers served, Welsh Water will build customer trust, benefitting not only recruitment, but wider business aims also.

Working with charities and organisations such as **WISE** and **Stonewall**, Welsh Water is able to attract individuals who may otherwise feel that there are significant barriers to employment.

Welsh Water's commitment to a gender diverse workforce is supported by our work with WISE, a campaign for gender balance in science, technology and engineering. Following their ten step model means making the right cultural changes that can in turn have a significant impact on attraction, recruitment and retention.

Our work with EU Skills on the Diversity and Inclusion Network Forum means that we are able to work with other companies in diversifying the workforce and ensuring that as a sector we are fair and equal, whilst also retaining this talent to ensure a sustainable and resilient future for the essential services delivered by the sector. Also, as part of our membership of the Talent Source Network, Welsh Water is involved in a number of diverse job boards including DESIblitz (a British Asian web magazine).

We have also signed up to **Disability Confident** and the Business Disability Forum to promote Welsh Water as an employer to individuals with disabilities. This also reinforces that we as an employer are committed to employing people with the right skills and attributes regardless of their individual challenges. To develop our commitment further we have become a Defence Recognised Employer, removing the barriers to employment for ex-military and reservists working in Welsh Water by signing the **Armed Forces Covenant**.

To improve our ability to attract diverse employees we intend to:

- engage with organisations with links to related talent pools.
- seek additional information from our current workforce so that we can track future improvements.
- change the way we recruit to reach out to different community leaders and gain their support. Establish relationships with key third-party organisations who can help us establish our credentials as an employer committed to improving diversity.

Our International Women's Day event in 2019 featured Cerys Furlong, Chief Executive of Chwarae Teg, the gender equality charity in Wales, who presented on the challenges she has faced in her career. A similar STEM (science, technology, engineering and mathematics) related event is also planned to be held in Llandudno in June 2019.

Delegates and employees on International Women's Day

SUPPORTING OUR COLLEAGUES AND SUPPLY CHAIN

During 2018-19 we have continued to focus on wellbeing issues across our colleague base, and the Safety and Wellbeing team led a campaign on mental health issues. Colleagues participated in a number of activities and started productive conversations as a result of our participation in Time to Talk Day, which we hope will continue throughout the year. The team shared resources and information for those who needed help with, or wanted to know more about, specific mental health conditions. We've also been working alongside mental health charity Mind Cymru to help us stay focused on reducing the stigma surrounding mental health issues in the long term, and to help us ensure that we do all we can to support colleagues in need of assistance.

HUMAN RIGHTS

We are committed to respecting human rights in relation to colleagues, and our supply chain. Our Code of Conduct was relaunched in March 2018. This explicitly encourages colleagues to "speak up" if anything doesn't seem right to them, in order to reinforce our culture of "doing the right thing" and individual accountability.

The Code is supported by a number of Group policies, as well as associated procedures and guidance, including:

ANTI-BULLYING AND HARASSMENT

We respect human dignity and the rights of individuals. Our Group policy articulates how colleagues should behave towards each other. During 2018 the Executive Team and senior managers undertook unconscious bias training to reinforce our commitment to a culture of inclusivity and respect.

SAFEGUARDING

We are committed to ensuring that colleagues who work with children and vulnerable adults are properly trained and this year we have developed our policy in this area to support this.

DIRECTORS' REPORT

WHISTLEBLOWING

A healthy culture where individuals feel able to speak out about anything that causes them concern is an important part of the "third line of defence" of our compliance model. This year we have publicised the availability of our external helpline which provides an additional confidential and secure means to enable our employees, suppliers, business partners and other stakeholders to raise concerns about conduct which is contrary to our values. We are fully committed to protecting any employee who reports a breach or suspected breach of the Code of Conduct or raises any other public interest disclosure.

MODERN SLAVERY ACT 2015

We are committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose any form of unfair employment practice including human trafficking and slave labour, and we are working to raise awareness across the business and in our supply chains. 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, human trafficking or unfair employment practices. Our Anti-Slavery Policy sets out the Group'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 standard 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. Our Human Resources team maintains recruitment polices to protect against slavery and human trafficking in our own operations and we are working towards meeting the Welsh Government's 12 commitments in its Code of Practice on Ethical Employment in supply chains. Further details and our anti-slavery statement can be found on the following link: **dwrcymru.com/Company-Statements**.

In addition, during 2018-19 we engaged the Unseen charity to provide training to our contract managers, procurement team and some of our third-party contractors. The scenarios discussed during the session made it clear that unfair employment practices of one type or another are relatively widespread making it important that individuals are vigilant in looking for any sign of abuse or of potentially abusive behaviours.

During the year we have developed a Contract Management and Supplier Management framework under which contracts and suppliers are risk assessed and allocated into one of three categories which determines the scope, level and depth of management oversight which is required. The risk assessment considers such factors as health and safety, employment practices, data protection, cyber security, supplier dependency and spend. Contract and Supplier-specific Management Plans will be put in place and monitored at the required frequencies. Contract management plans focus on ensuring that we receive the specified goods or services at the required time, cost and quality, and that health and safety, risk, and compliance are managed. Supplier management plans focus on the management and measurement of supplier performance at a company level, allowing decisions on suppliers to be made on a business-wide strategic basis.

We have been made aware of one instance of potentially unfair employment practices arising in connection with the unauthorised use of a sub-contractor within our supply chain. Once we were made aware of this issue we took immediate steps to regularise the position with our main contractor. The supplier management framework referred to above will help us to address any similar issues that arise in the future.

ANTI-BRIBERY & CORRUPTION AND ANTI-FRAUD

Our Group policy makes clear that we will not tolerate any acts of fraud, dishonesty, bribery, corruption, theft or improper disclosure of confidential information. The Group treats these issues very seriously and expects all occurrences to be reported immediately. This is reinforced by our strict policy on hospitality and gifts from suppliers which is regularly monitored and enforced. The Audit Committee carries out an annual review of our systems of internal control as part of our ongoing efforts to prevent bribery and corruption in our business and our supply chain.

WELSH WATER COMMUNITY FUND

During 2018-19, we have continued to make grants from the Welsh Water Community Fund, which allows us to give something back to the communities where we are making investment. The Community Fund is a chance for communities to boost fundraising efforts for good causes in their area. In making awards from this fund, our Community Fund committee gives priority to areas where Welsh Water has been carrying out works that may have impacted the local community. For examples of award made this year, please see page 24. For further information please see our website.

DIRECTORS' REPORT

CONFLICTS OF INTEREST

We require our employees to perform their duties honestly and to avoid conflict between any personal, financial or commercial interests and their responsibilities to Welsh Water.

COMPETITION LAW COMPLIANCE

Welsh Water is entirely supportive of open and fair competition and committed to adhering strictly to all competition laws. Our competition law Compliance Code is published on our website

> READ MORE ONLINE AT: DWRCYMRU.COM/ COMPANYSTATEMENTS

SUPPLIER PAYMENT POLICY

Our review of our creditor payment performance confirms that Welsh Water is among the best companies for prompt payment to its suppliers – with 90% of suppliers paid within 30 days of invoice receipt. In May 2019 we signed up to the UK Government's Prompt Payment Code and have exceeded its requirement to pay 95% of suppliers within 60 days.

SUPPORTING OUR CUSTOMERS AND COMMUNITIES

See page 24 of the Strategic Report ("How We Work With You") which provides details of the wider support we provide to communities across our supply area.

ACCESS AND RECREATION

We are the custodian of approximately 40,000 hectares (99,000 acres) of land that is rich in scenery and biodiversity. This enables us to provide excellent opportunities for public recreation, with over 500,000 visitors a year visiting our 17 major reservoir sites where we provide a range of sporting, recreational and leisure facilities. We also have established Visitor and Activity Centres at our Llandegfedd (Gwent), Brenig (Denbighshire), Llys y Fran (Pembrokeshire) and Elan Valley (Powys) sites. We are in the process of redeveloping the site at Llys y Fran with support from Visit Wales and European funding.

We also purchased reservoirs at Lisvane and Llanishen at the end of 2016 and we are currently in the process of developing a Visitor Centre at this site in north Cardiff which is planned to form part of a "green corridor" through the city and will also provide a variety of leisure facilities.

We are proposing ambitious targets to increase visitor numbers to around 830,000 across all of our recreational centres by 2025.

BIODIVERSITY

From December 2019, under the Environment (Wales) Act 2016 we will report on a three-yearly basis on compliance with our duty to strengthen biodiversity and ecosystems across our supply area. We were the first organisation in Wales to publish a Biodiversity report in December 2018.

CAREER PATHS

We follow up our focus on improving the diversity of our workforce and supporting children's interest in water and the importance of the service we provide, by offering a variety of different development routes for those choosing to join our business. The list below sets out some of the different development routes we offer:

GRADUATES

- Leadership Development
- Automation, Telemetry and Control Engineering

HIGHER APPRENTICESHIPS

- Computer Programming
- Cyber Security
- Data Analytics

APPRENTICESHIPS

- Apprentice Distribution Inspector
- Apprentice Mechanical Fitter
- Apprentice Electrician
- High Apprentice ICA Technician
- Trainee Sewerage Operative
- Trainee Production Technician
- Apprentice Customer Service Advisor
- Apprentice Administrator

INTERNSHIPS

Our internships are undergraduate placements and carefully monitored work experience:

- **Summer Internship Programme:** These are 12-week placements
- **12-month Internships:** These usually start in September and finish in the following August

NETWORK 75

Network 75 is a programme consisting of both undergraduate study and on-the-job learning. The programme is aligned to the duration of part-time study for a particular degree.

EDUCATION

In 2018-19 we are celebrating a major milestone in terms of our education service in our four Discovery Centres at Elan Valley near Rhayader, Cilfynydd near Pontypridd, Cog Moors near Dinas Powys and Brenig in the Denbigh Moors. Since 2001, when Glas Cymru acquired Welsh Water, we have engaged with 500,000 students who have received an educational session. These sessions have either been delivered at one of our Discovery Centres or via our outreach programme of educational sessions in schools, led by our team of teachers seconded for 12-month periods. We plan to mark this milestone at a special reception at the Senedd building, Cardiff Bay in July 2019.

Our secondary school education provision includes supporting the Engineering Education Scheme Wales (EESW) and STEM Cymru, and providing mentors to Year 8 students in schools near our sites. We also now provide comprehensive bilingual online education resources to support teachers.

A key aim of our education service is to ensure that the next generation understands the part they play in helping us achieve our vision. Our sessions offer a range of fun, practical activities and programmes for children and families. Our teachers regularly visit primary and secondary schools to deliver workshops on water efficiency (Love Dŵr) and pollution (Let's Stop the Block). This year, over 68,000 children and young people have taken part in our education programme.

DIRECTORS' REPORT

INNOVATION

Our innovation portfolio continues to grow with 467 ideas and proposals now assessed through our iLab process since we started in April 2015. We have completed some 92 projects, winning eight innovation awards in the process and worked with 123 partner organisations investing some £4.6m in 2018/19 in these projects. This work continues to drive efficiencies, reduce our environmental footprint, and improve our health and safety. 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 continues to assist us in tapping 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, in particular.

More generally, we continue to drive elements of the national research agenda through our strategic relationship with the National Environmental Research Council (NERC) and UKRI more generally, 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 common research interests of UK water companies.

We encourage a pipeline of innovative solutions throughout the year, and showcase innovation at our annual Innovation Conference (see page 13) where we launched our Innovation Strategy for AMP7.

ENERGY USE AND GREENHOUSE GAS EMISSIONS

NET CARBON EMISSIONS 2018/19
59,845
TONNES CO_2 EQUIVALENT (tCO_2e)

GENERATED FROM RENEWABLES
85 GWh

79% ↓ Compared to 2010/11 baseline

RENEWABLES MADE UP
17% of our electricity and gas consumption in 2018-19

METHODOLOGY – HOW WE MEASURE OUR CARBON FOOTPRINT

Since 2010 we have reduced our carbon emissions by 79%. We monitor and measure our carbon footprint by using the UK water industry carbon accounting tool, which follows the 2013 UK Government Environmental Reporting Guidance and the GHG Protocol Corporate Accounting and Reporting Standard (2015). The reported carbon footprint includes direct, indirect and net reductions (also known as scope 1, 2 and 3 emissions). The sum of the three scopes are the net operational carbon emissions (market based total). For completion the gross operational carbon emissions trend (location based total) is also presented.

The presented intensity ratios for our Water Services are calculated using the quantity of water that has been put into supply (distribution input) as the denominator. The presented intensity ratios for our Waste Water Services are calculated using the quantity of sewage (flow to full treatment) as the denominator. In both cases the unit used for the denominator is MegaLitre (ML).

Welsh Water's energy use is annually reported as part of the Ofwat Annual Performance Report and the energy consumption is calculated in line with OFWAT Regulatory Accounting Guidelines. The reported energy use numbers include all the electricity, gas and other fuels used by Welsh Water, including transport fuels. Passenger travel miles using public transport has been excluded from the numbers, as they are deemed de minimis.

The 2018/19 numbers cover the period from 1 April 2018 to 31 March 2019.

CLIMATE CHANGE – WHAT ACTIONS WE TAKE

To tackle climate change Welsh Water invests in renewable energy generator technologies (combined heat and power running on bio-methane derived from sewage sludge, bio-methane injection into the gas grid, hydro turbines, onshore wind turbines and solar photovoltaics) to supply by 2020, 25% of the energy we need to provide services to our customers.

The remaining ~75% is procured from our electricity supplier Ørsted, who provide Welsh Water with 100% renewable energy, which is REGO (Renewable Energy Guarantee of Origin) backed. The REGO enables a company to show named sources for all its electricity and declare these supplies as being carbon-free (i.e. these supplies have a net zero impact on the net carbon emissions), in line with the Greenhouse Gas Protocol.

In AMP6 (period 2015 – 2020) Welsh Water is planning to invest £16.3m to reduce energy consumption and £28.8m on increasing renewable generation (hydro, solar and wind generation), totalling £45.1m of investment in total. The most important energy consumption reduction measures are: the installation of energy efficient lighting, energy efficient pumps and blowers and the implementation of automated process controls. In financial year 2018-19 Welsh Water invested in total ~£1.9m in energy efficiency and renewable generation and reducing grid imports by ~3.3 GWh per year (3,345 MWh). Roughly 50% of the investment was spend on new solar generation and hydro generation.

At the end of financial year 2018-19, £33.4m of investment has been delivered and saving 49.2 GWh per annum. A further £9.7m is currently in the process of being delivered, saving an additional 14.4 GWh per annum

TARGETS AND TRENDS

Until 2017-18 our operational carbon emissions were dominated by consumption from the national grid. In 2017/18 our net operational carbon emissions fell dramatically (by 70% down to 62.5 ktCO_2) due to a change in our electricity supply contract. This changed on 1 April 2017 to Ørsted and includes supply of "REGO backed" electricity.

In 2018/19 the carbon foot print continued to decrease down to 60ktCO_2e, which was mainly due to a decrease in carbon emissions associated with the transmission & distribution losses. This decrease is due to an overall drop in the UK grid emission factor.

The Ofwat AMP6 Measure of Service for carbon emission is "renewable energy generated" and this decreased to 85 GWh from 98 GWh in the year before. The reduction in renewable generation was mainly due to less hydro power being generated as a result of the summer drought. This measure will be replaced in AMP7 by "percentage self-sufficiency", which recognises the need to increase renewable generation, as well as reduce gross energy consumption.

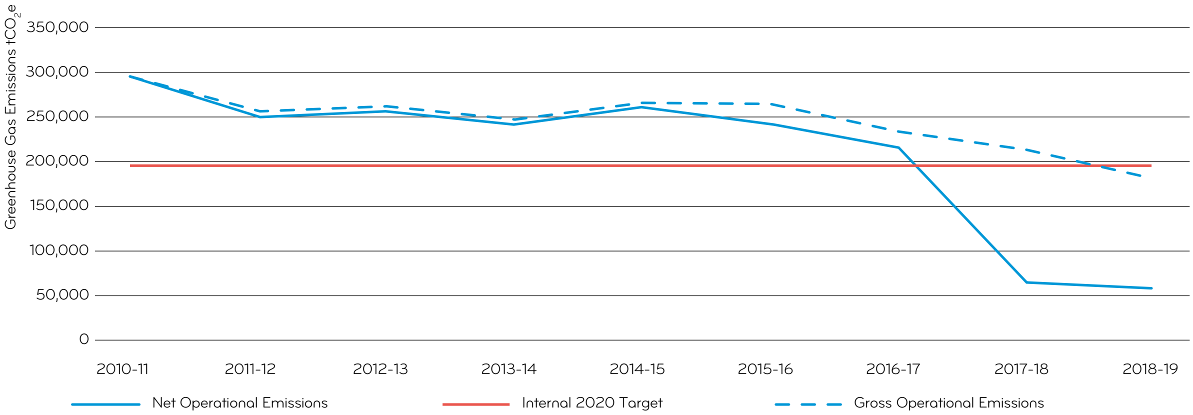
Welsh Water's gross energy consumption is increasing year on year. The latter is mainly due to the additional treatment required to meet ever-tightening compliance criteria and abstraction licence changes, which increases pumping energy use. On top of that the recent extreme weather events (for example: the summer drought and storm Callum) have also increase energy consumption over the last three years. All these upward energy consumption pressures, completely offset the energy consumption improvements made by installing energy efficient equipment (motors, pumps, lighting, etc.).

To buck this trend, the key focus for the next five years is to reduce consumption. An energy efficiency investment programme has been developed for AMP7, which will be supported by a behavioural efficiency programme that is planned to reduce gross electricity consumption by 3% by the end of AMP7 (2025).

SERVING OUR CUSTOMERS AND COMMUNITIES

DIRECTORS' REPORT

OUR CARBON FOOTPRINT SINCE 2010-11



ENERGY USE AND GREENHOUSE GAS EMISSIONS YEAR ON YEAR

	Unit	2016/17	2017/18	2018/19
Water Services				
Energy Intensity	kWh/ML	780	794	823
Carbon Intensity	$kgCO_2e$/ML	263	7	13
Waste Water Services				
Energy Intensity	kWh/ML	577	551	587
Carbon Intensity	$kgCO_2e$/ML	242	89	83
Welsh Water Total				
Energy use	MWh per year	524,511	543,901	566,064
Carbon Footprint	tCO_2e	212,374	62,544	59,845

DATA PROTECTION AND INFORMATION SECURITY

We have consolidated our Group-wide compliance and awareness programme during the year following the coming into force of the Data Protection Act 2018 (the General Data Protection Regulation) which came into force in May 2018. The Data Protection Officer and her assistant solicitor continue to raise awareness across the Group that the personal data we hold belongs to individual customers or colleagues, highlighting the importance of protecting the privacy of the individual in relation to the personal information we hold. We have established key principles that govern the collection, use and handling of personal information and provide individuals with important rights. Our Privacy Statement is available on our website: dwrcymru.com/companystatement

Our policies also reinforce the role of individuals in keeping information secure and accurate. The Audit Committee regularly reviews our approach to cyber security risk. During the year, we maintained our Cyber-Essentials plus certification and we are working towards IS270001 accreditation for our information security controls.

WELSH LANGUAGE SCHEME

We have adopted the principle that in the context of conducting our public business in Wales we will treat the Welsh and English languages on a basis of equality.

We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an effective standard of service in both languages. We also encourage the use of Welsh amongst our colleagues and run Welsh language lessons to support those wishing to learn or develop their proficiency in the language.

Our Welsh Language Scheme is an approved scheme under the provisions of the Welsh Language Act 1993. We are continuing to work 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.

POLITICAL DONATIONS

It is Board policy not to make donations to political parties or to incur political expenditure. During the year a payment to Citizens Advice (£45,000) to fund a debt adviser providing advice to our customers in Rhondda Cynon Taff, and to Step Change (£18,270) to support the work the charity does in providing debt advice to our customers. We are disclosing these payments as both organisations also campaign for government policy change, including on debt issues, however none of the funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require to be disclosed under section 366 of the Companies Act 2006.

WATER AID AND THE PRINCE'S TRUST

As appropriate for a company with our corporate structure, we do not engage in corporate sponsorship. However we continue to support WaterAid and The Prince's Trust.

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.

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; and
- 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 2019 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 subsidiary companies.

Nicola Williams
General Counsel and
Company Secretary

6 June 2019

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 parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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 year. 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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 prepared a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

We consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders 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

6 June 2019

AUDITORS

KPMG LLP act as Auditors to Glas Cymru for the accounts for the year ended 31 March 2019. 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 any necessary 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; and
- 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, the 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.

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year.


DŴR CYMRU
ELW I GYMRU
FOR WALES
NOT FOR PROFIT

FINANCIAL REVIEW AND RESULTS

THIS SECTION CONTAINS THE GROUP'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GLAS CYMRU HOLDINGS CYFYNGEDIG ONLY

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of Glas Cymru Holdings Cyfyngedig ("the Company") for the year ended 31 March 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, parent Company balance sheet, parent Company statement of changes in reserves, consolidated cash flow statement, parent Company cash flow statement and the related notes, including the accounting policies in note 1

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 2019 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below.

We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality: group financial statements as a whole	£11.0m (2018: £11.0m) 0.16% (2018: 0.18%) of Total Assets	
Coverage	100% (2018: 100%) of group loss (2018: loss) before tax	
Risks of material misstatement vs 2018		
Recurring risks	Group pension obligation and unquoted assets held by the pension scheme	◄►
	Provision for trade receivables	◄►
	Classification of costs between operating expenditure and capital expenditure	◄►
Parent company risks	Parent company's investment	◄►

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Group pension obligation and unquoted assets held by the pension scheme *Present value of obligation* (£488.4m; 2018: £474.1m) *and Unquoted Assets* (£149.0m; 2018 £145.0m): *Refer to page 74 (Audit Committee Report), page 135 (accounting policy) and page 135 (financial disclosures).*	**Subjective estimate** Small changes in the assumptions and estimates used to value the group's pension obligation such as discount rates, inflation price, mortality rates would have a significant effect on the group's net pension deficit. There exists a high value of difficult to value assets on unquoted markets, giving rise to complexity in assessing these valuations. The effect of these matters is that, as part of our risk assessment, we determined that the value of group's pension obligation and unquoted assets held the pension scheme have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	Our procedures over the obligation included: • **Benchmarking assumptions:** with the support of our own actuarial specialists, we challenged the key assumptions applied, being the discount rate, inflation price and mortality rates against externally derived data; and • **Assessing transparency:** we have also considered the adequacy of the group's disclosures in respect of the sensitivity of the deficit to changes in key assumptions. Our procedures over unquoted assets: • **Tests of details:** we received confirmations from the third party expert fund managers and agreed to the carrying amount of the assets held by the scheme; • **Tests of details:** we agreed audited fund financial statements to fund valuation reports as at the fund year end to evaluate the historic accuracy of fund valuations; and • **Assessing valuer's credentials:** we assessed the competence and objectivity of those experts.
Provision for trade receivables *Trade receivables:* (£550.3m; 2018: £556.m) *Provision for impairment of receivables:* (£78.7m; 2018: £83.8m) *Refer to page 74 (Audit Committee Report), page 135 (accounting policy) and page 135 (financial disclosures).*	**Subjective estimate** The provision for doubtful debts is a significant risk area 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 historic cash collection rates to build an expected loss model. In addition to this, management adjust for items affecting the future cash collections in order to appropriately estimate bad debt exposure. The effect of these matters is that, as part of our risk assessment, we determined that recoverability of trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	Our procedures included: • **Methodology implementation:** assessed whether the calculation incorporated the appropriate information, risks and data including historical cash collections and write offs, to estimate the level of irrecoverable debt, based on our knowledge of the group and the industry; • **Our 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; and • **Assessing transparency:** assessed the adequacy of the Group's disclosures about the degree of estimation uncertainty involved in calculating the provision.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GLAS CYMRU HOLDINGS CYFYNGEDIG ONLY CONTINUED

	The risk	Our response
Classification of costs between operating expenditure and capital expenditure *Additions:* (£372.2m; 2018: £349.4m) *Refer to page 74 (Audit Committee Report), page 135 (accounting policy) and page 135 (financial disclosures).*	**Accounting treatment** 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 PPE, or alternatively should be expensed immediately. Third party experts are engaged to assist the directors in their assessment of the expenditure to be capitalised on infrastructure assets which are more judgemental in nature. There is a risk that costs could be inappropriately capitalised, based on the judgements made by directors in respect of non-infrastructure and infrastructure expenditure.	Our procedures included: • **Accounting analysis:** we assessed the Group's capitalisation policy against the requirements of the accounting standards; • **Control design:** we tested controls over a sample of capital projects including evaluating if the classification of expenditure as capital was in line with policy and subject to review and authorisation from the appropriate level within the business hierarchy; • **Sector experience:** on a sample basis, we challenged the judgements made by both the group (non-infrastructure expenditure) and the independent third party engaged by the group (infrastructure expenditure) over the level of capitalisation based on the group's accounting policies, knowledge of the sector and underlying nature of the projects; and • **Assessing expert's credentials:** we assessed the third party expert's competence to perform this assessment of capital expenditure by considering their sector experience with reference to previous industry projects and the method used.
Valuation of parent company's investment in subsidiaries *Investment in subsidiaries:* (£3,833.5m; 2018: £3,398.1m) *Refer to page 74 (Audit Committee Report), page 135 (accounting policy) and page 135 (financial disclosures).*	**Forecast-based valuation** The valuation of the parent company's investments are stated at fair value. The fair value is calculated using a discounted cash flow model. The judgements related to the future cash flow forecasts and the use of the company's regulatory capital value (RCV) as its terminal value are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the value of the parent company's investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 1) disclose the sensitivity estimated by the Company.	Our procedures included: • **Methodology implementation:** assessed whether the calculation incorporated the appropriate inputs including reasonable forecasts and assumptions about the future prospects of the subsidiaries; • **Historical comparisons:** we evaluated the director's forecasting ability by comparing previous forecasts to actual results; • **Benchmarking assumptions:** we assessed the valuation method based on recent prices paid for similar companies within the industry, with a focus on the multiple of OFWAT reported RCV used; and • **Our sector experience:** we assessed the discount rate used in the discounted cash flow with reference to the WACC used for similar companies.

We continue to perform procedures over the measured income accrual. However, following a number of years with no issues noted we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £11m, determined with reference to a benchmark of group's total assets, of which it represents 0.16% (2018: 0.18%).

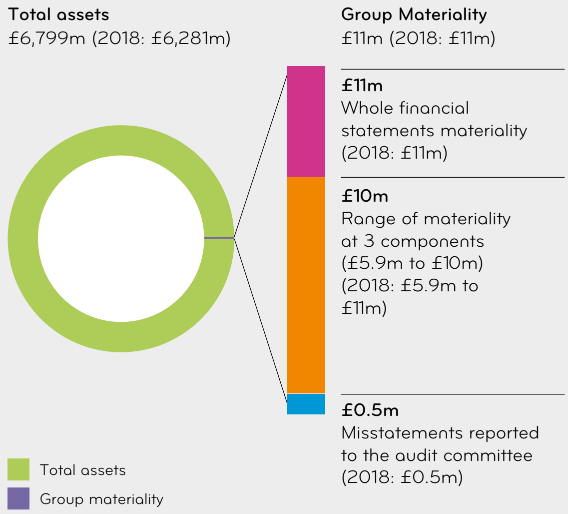
Materiality for the parent company financial statements as a whole was set at £5.9m (2018: £5.9m), determined with reference to a benchmark of parent company total assets, of which it represents 0.15% (2018: 0.18%).

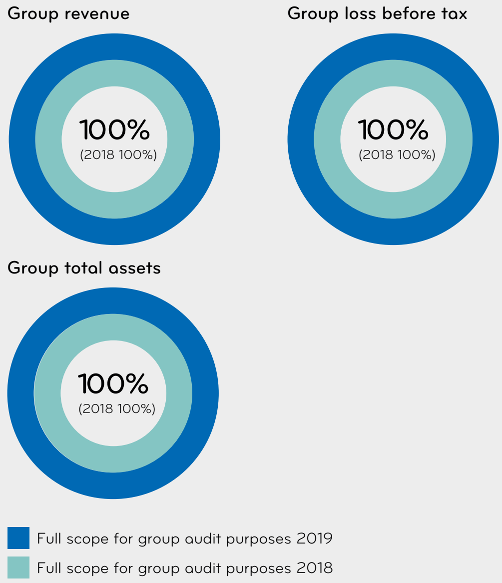
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 12 (2018: 11) components, we subjected 3 (2018: 3) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team approved the component materialities, which ranged from £5.9m to £10m, having regard to the mix of size and risk profile of the Group across the components. The work on all of the components, including the audit of the parent company, was performed by the Group team.





INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GLAS CYMRU HOLDINGS CYFYNGEDIG ONLY CONTINUED

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease its operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The Group's ability to make repayments on its high levels of debt and to refinance if necessary.

As these were risks that could potentially cast significant doubt on the Group's and Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the chemical supply chain.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

STRATEGIC REPORT AND DIRECTORS' REPORT

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

DIRECTORS REMUNERATION REPORT

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 to be audited has been properly prepared in accordance with the Companies Act 2006, as if those requirements applied to the company.

DISCLOSURES OF PRINCIPAL RISKS AND LONGER-TERM VIABILITY

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

- the directors' confirmation within the long-term viability statement (page 52) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

CORPORATE GOVERNANCE DISCLOSURES

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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 Guidance 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 part of the Corporate Governance Statement relating to the Company's compliance with the eleven provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in these respects.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, 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 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.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GLAS CYMRU HOLDINGS CYFYNGEDIG ONLY CONTINUED

7. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 118, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the company.

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the company and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Ledward
Senior Statutory Auditor
for and on behalf of KPMG LLP

Chartered Accountants

3 Assembly Square, Britannia Quay,
Cardiff CF10 4AX

6 June 2019

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

Continuing activities	Note	2019 £m	2018 £m
Revenue		**781.6**	756.7
Operating costs:			
Operational expenditure	3	**(336.0)**	(319.0)
Infrastructure renewals expenditure	3	**(83.9)**	(86.0)
Depreciation and amortisation	3	**(293.0)**	(276.3)
	3	**(712.9)**	(681.3)
Operating profit	3	**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	4a	**5.0**	3.9
Financial expenses	4a	**(168.6)**	(175.9)
Fair value (losses)/gains on derivative financial instruments	4b	**(29.2)**	80.0
		(192.8)	(92.0)
Loss before taxation		**(123.9)**	(14.8)
Taxation	5	**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

	Note	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	21	**(19.9)**	12.2
Related deferred tax	6	**2.6**	(2.8)
Revaluation of property, plant and equipment	7	**132.2**	158.1
Related deferred tax	6	**(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 BALANCE SHEET AS AT 31 MARCH 2019

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**5,536.7**	5,312.1
Intangible assets	9	**175.1**	146.3
Trade and other receivables	11	**0.9**	0.9
Other financial assets:			
derivative financial instruments	15	**3.8**	1.9
		5,716.5	5,461.2
Current assets			
Inventories		**4.0**	3.2
Trade and other receivables	11	**573.5**	577.7
Cash and cash equivalents	12	**501.1**	288.5
Other financial assets:			
derivative financial instruments	15	**4.6**	6.4
		1,083.2	875.8
Total assets		**6,799.7**	6,337.0
Liabilities			
Current liabilities			
Trade and other payables	13	**(558.2)**	(564.1)
Provisions	17	**(4.0)**	(2.4)
Other financial liabilities:			
– borrowings	14	**(195.4)**	(41.5)
– derivative financial instruments	15	**(27.7)**	(29.2)
		(785.3)	(637.2)
Net current assets		**297.9**	238.6
Non-current liabilities			
Trade and other payables	13	**(264.7)**	(233.9)
Employee benefits	21	**(96.2)**	(80.4)
Provisions	17	**(2.6)**	(6.5)
Other financial liabilities:			
– borrowings	14	**(3,570.3)**	(3,317.3)
– derivative financial instruments	15	**(406.9)**	(376.2)
Deferred tax – net	6	**(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	7	**1,189.5**	1,142.8
Retained earnings		**44.1**	101.5
Total reserves		**1,233.6**	1,244.3

The financial statements on pages 130 to 165 were approved by the Board of Directors on 6 June 2019 and were signed on its behalf by:

C.A. Jones
Chief Executive

P.J. Bridgewater
Finance and Commercial Director

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**

PARENT COMPANY BALANCE SHEET AS AT 31 MARCH 2019

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Investment in subsidiaries	10	**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	12	**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

The financial statements on pages 133 to 134 were approved by the Board of Directors on 6 June 2019 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 2019

	Note	2019 £m	2018 £m
Cash flow from operating activities			
Cash generated from operations	18a	**361.0**	347.5
Interest paid	18b	**(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	19b	**212.6**	187.9
Cash and cash equivalents at 1 April		**288.5**	100.6
Cash and cash equivalents at 31 March	12	**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

1. ACCOUNTING POLICIES, FINANCIAL RISK MANAGEMENT AND ACCOUNTING ESTIMATES

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2019

Glas Cymru Holdings Cyfyngedig ('the Company') is a private company incorporated, domiciled and registered in Wales in the UK. 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

Glas Cymru Holdings Cyfyngedig is limited by guarantee and is the ultimate parent company of the Glas Group.

The consolidated financial statements of Glas Cymru Holdings Cyfyngedig and the parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (Adopted IFRSs). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, other financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

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 139.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Intra-group transactions and profits are eliminated on consolidation.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated statement of comprehensive income from the date on which control is obtained. They are de-consolidated from the date on which control ceases.

The Company financial statements present information about the Company as a separate entity and not about its Group.

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.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following Adopted IFRSs which are effective for accounting periods beginning on or after 1 January 2018 have been applied in these financial statements.

– **IFRS 9 Financial Instruments**

  The standard introduces a revised model for the classification and measurement of financial instruments, a revised approach to hedge accounting and an "expected loss" impairment model. The impact of the standard is that additional disclosures are required in these financial statements to show historical experience and the extent of forward-looking factors. While an "expected loss" impairment model is in line with the approach historically taken by the Group towards its provisioning against trade receivables, losses in relation to the measured income accrual have only been recognised once billed.

  The Group has used its existing provisioning methodology for measured debt in determining an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 31 March 2019 is £3.8m, being a revenue provision of 5% against a gross balance of £76.9m. The provision will be reassessed for adequacy at each balance sheet date, but the Directors do not anticipate any material fluctuations. There is no requirement to restate comparative information for balances affected by the adoption of IFRS 9 in the period of transition, the impact of which would not in any case be material to the financial statements.

– **IFRS 15 Revenue from Contracts with Customers**

  The Standard deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The Standard replaces IAS 18 Revenue and IAS 11 Construction Contracts, and related interpretations.

The Group has undertaken an assessment of the impact of IFRS 15 and recognises that contracts with customers are, in a majority of cases, governed by legislative requirements rather than discrete commercial arrangements. As a result, the application of judgement is important in determining the most appropriate treatment of certain income streams. The key consideration in respect of the Group's activities is where revenues from bundled goods and services require separation, which may result in deferring or recognising revenue immediately. There has been no change to the manner in which we recognise revenues from our core water and sewerage supply services, which constitute more than 95% of total income, since there is a clear performance obligation satisfied over a measured period of time; however, there are some peripheral income streams which do require more in-depth consideration. All water companies have a legal obligation to allow third parties to establish an authorised connection to their networks and a number of activities may be necessary in order to achieve this, giving rise to the following transactions and accounting treatments under IFRS 15:

- *Connection charges:* these are amounts received from developers for connection to the network which we recognise as income on delivery of that performance obligation.
- *Infrastructure charges and requisitions:* third party contributions towards the Group's obligation to ensure future service provision to the connection or mains over its life; we estimate that an average connection lasts for 80 years and defer the release of charges over that period.
- *Asset adoptions:* usually sewers adopted at no cost, whereby the receipt of the asset is out of scope of IFRS 15 and should therefore be recognised at fair value (with deferral of related non-cash income).
- *Diversions:* payment in return for moving a water or sewer main to accommodate other infrastructure changes. The performance obligation is to move the main, with no additional asset creation, therefore revenue is recognised immediately.

There has been no material change to our accounting treatment for any of these income streams following the adoption of IFRS 15.

IFRS 16 Leases, which is effective for accounting periods beginning on or after 1 January 2019, will revise the treatment of leases in financial statements and will largely eliminate the accounting distinction between operating and finance leases. The Directors have assessed the impact of adopting IFRS16 and expect it to result in the recognition of additional tangible fixed assets at a value of around £1m, which will attract a depreciation charge rather than the current treatment of lease payments as an operating cost.

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

Standards

- IFRS 17 – Insurance Contracts

Interpretations

- IFRIC 23 – Uncertainty over Income Tax Treatments

Amendments

- IAS 1 – Presentation of Financial Statements
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 12 – Income Taxes
- IAS 19 – Employee Benefits
- IAS 23 – Borrowing Costs
- IAS 28 – Investments in Associates and Joint Ventures
- IFRS 3 – Business Combinations
- IFRS 9 – Financial Instruments
- IFRS 11 – Joint Arrangements

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

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 Board.

INVESTMENTS

The Company's investments comprise equity holdings in wholly-owned subsidiaries, as set out in note 10. These are stated at fair value with any resultant gain or loss being recognised directly in equity, in the revaluation reserve.

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

PROPERTY, PLANT AND EQUIPMENT

The economic value of the Group's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its price reviews every five years. 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 2019 the total value of tangible and intangible fixed assets has been revalued to the 'shadow RCV', (Regulatory Capital/Asset Value) of Dwr Cymru Cyfyngedig, being the 31 March 2019 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 lives and residual values are reviewed annually.

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).

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

Borrowing costs are 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 three 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 'other 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 the expected credit loss. 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 for 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 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 the income statement.

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.

OTHER 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 swaps, 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 2019, none of the Group's derivatives qualified for hedge accounting (2018: 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 Group plans to use until the end of their useful economic life. The Group 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, uninsured losses and billing disputes 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.

TAXATION

Current taxation is corporation tax in the United Kingdom based on the taxable profit for the year and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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 are placed with counterparties that have a minimum long-term rating of AA-/Aa3/AA-.

In practice, the Group has adopted a more prudent approach to cash management and timed deposits are placed for a maximum of 35 days with banks subject to minimum long-term rating criteria of A-/A3/A-. Bonds can be purchased from certain AA-rated counterparties with maturities of up to one year 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 is £75m (2018: £73m).

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 £3,715m as at 31 March 2019 (2018: £3,309m) none related to floating rate debt (2018: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2019, 100% (2018: 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 requirements 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 £426m in the balance sheet at 31 March 2019 (2018: £397m) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.

POWER PRICE HEDGES

The Group 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 £3,715m (2018: £3,309m) 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 2019, the Group had committed undrawn borrowing facilities of £170m (2018: £420m) and cash and cash equivalents (excluding debt service payments account) of £348m (2018: £282m).

The undrawn facilities of £170m of revolving credit facilities are available until November 2020. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2019 there was also a special liquidity facility of £135m (2018: £135m); this is required in order to meet certain interest and other obligations that may not 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. Up until 2 April 2019, the facility was provided by four banks and was renewable on an annual basis. From 3 April 2019 the facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen 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) and linked to the movements in the Retail Prices Index as determined by Ofwat. As at 31 March 2019 this regulatory gearing was 58% (2018: 57%).

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The probability of failing to recover a debt is based on expected credit loss, determined by past experience and expected future movements in collection rates, 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 5%, the provision for impairment would increase or decrease by £3.5m (2018: £4.5m).

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, price inflation and mortality rates, which are 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 2019 would increase or reduce by £9.0m (2018: £8.9m).

If the scheme's assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. With the exception of cash, assets consist of pooled investment funds, alternative strategy funds and property funds which are not quoted on an active market. Of total assets amounting to £397m (2018: £398m), assets with a fair value of £149m (2018: £145m) are Level 3 financial assets; these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. A 5% movement in the fair value of these Level 3 financial assets would increase or decrease the overall carrying value of the pension liability by £7.3m (2018: £7.3m). (See also note 21)

PARENT COMPANY'S INVESTMENT IN SUBSIDIARIES

Glas Cymru Holdings Cyfyngedig's investment in its subsidiaries is reported at fair value, using a discounted cash flow approach with reference to projected revenues and expenditure, the weighted average cost of capital and the company's regulatory capital value, all of which are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. A 0.1% change in the discount rate used would increase or decrease the valuation by £118m (2018:£112m) (see also note 10).

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 treasury derivatives are categorised as Level 2. Trading derivatives, relating to power price hedges, are categorised as Level 2 where marked-to-market valuations are received for these trades. Where marked-to-market valuations are not received the fair values are estimated rather than observable, and are therefore categorised as Level 3. At 31 March 2019 the fair values of derivatives were as follows:

Level 2:
Assets: trading derivatives £2.5m, treasury derivatives £3.5m (2018: trading derivatives £4.8m, treasury derivatives £3.5m).

Liabilities: trading derivatives £0.2m treasury derivatives £433.8m (2018: trading derivatives £0.3m, treasury derivatives £405.1m).

Level 3:
Assets: trading derivatives £2.4m, treasury derivatives £nil (2018: trading derivatives £nil, treasury derivatives £nil).

Liabilities: trading derivatives £0.6m treasury derivatives £nil (2018: trading derivatives £nil, treasury derivatives £nil).

Trading derivatives relate to power hedges. Treasury derivatives relate to interest rate swap contracts. All derivatives are recorded on the balance sheet at fair value.

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.

Level 3 debt instruments 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. Level 3 debt instruments are valued by comparing valuations from Level 2 trades for the same periods, with the valuations from observable trades being inflated or deflated to allow for any fixed price variations.

CAPITALISATION

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

2. SEGMENTAL INFORMATION

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

While the Group operates in a single segment, its activities can be disaggregated into the following principal income streams:

Group	2019 £m	2018 £m
Regulated revenue		
Water	**320.9**	304.8
Sewerage	**399.9**	389.4
Retail	**52.7**	53.1
Total regulated revenue	**773.5**	747.3
Other (non-regulated)	**8.1**	9.4
Total revenue	**781.6**	756.7

Regulated revenue relates to the provision of water, sewerage and related retail services operating under Dŵr Cymru Cyfyngedig's licence as part of the water industry in England and Wales, regulated by The Office of Water Trading (Ofwat).

Other (non-regulated) revenue relates to income streams which are not subject to Ofwat's price control; these principally comprise organic energy generation and certain other activities which are peripheral and/or complementary to the Group's core water and sewerage business.

3. OPERATING PROFIT

The following items have been included in arriving at the operating profit:

Group	2019 £m	2018 £m
Operating expenditure		
Power	**46.3**	42.7
Chemicals	**11.2**	9.6
Materials and equipment	**6.0**	5.5
Vehicles and plant	**8.2**	8.5
Office expenses	**10.0**	9.8
Property costs	**3.9**	4.0
Insurance	**4.1**	4.1
Water and sewerage contractors	**23.8**	19.8
Laboratories and analytical services	**0.9**	0.8
Collection commissions	**3.4**	4.2
IT contracts	**10.0**	11.1
Bought-in services and other costs	**48.2**	38.9
Employee costs (note 20)	**159.6**	150.4
Staff costs capitalised	**(60.3)**	(53.8)
Research and development credit	**(0.5)**	(1.4)
Trade receivables impairment	**21.0**	22.1
Rates	**24.2**	26.9
Natural Resources Wales/Environment Agency charges	**15.4**	15.3
Fees payable to Auditors	**0.6**	0.5
Total operational expenditure	**336.0**	319.0
Infrastructure renewals expenditure	**83.9**	86.0
Depreciation and amortisation		
Depreciation of property plant and equipment	**279.1**	259.8
Release of deferred income	**(5.8)**	(5.2)
Amortisation of intangible assets	**19.7**	21.7
Total depreciation and amortisation	**293.0**	276.3
Total operating costs	**712.9**	681.3

SERVICES PROVIDED BY THE GROUP'S AUDITORS

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

Group	2019 £000	2018 £000
Audit fees		
Audit of parent company and consolidated financial statements	**20**	20
Audit of subsidiary companies	**150**	139
Total audit fees	**170**	159
Audit-related assurance services		
Review of interim financial statements	**25**	22
Regulatory audit services pursuant to legislation	**51**	54
Regulatory price review assurance work	**41**	–
Scheme of charges assurance work	**–**	26
Investor report reviews	**8**	6
Environment Agency levy assurance work	**3**	3
Bond issuance assurance work	**–**	38
Total audit and audit-related assurance services	**298**	308
Other services		
Tax iXRBL document tagging	**7**	–
Pensions advice	**71**	80
Assurance on commercial activities	**–**	58
Direct Procurement for Customers project assessment	**72**	–
Legal services advice including payroll, reward and data analytics services regarding Gender Pay Gap reporting and a voluntary equal pay audit	**–**	65
Total other services	**150**	203
Total cost of services provided by the Group's Auditors	**448**	511

Regulatory audit services include audit work in respect of regulatory requirements: the Annual Performance Report, Cost Assessment tables and Scheme of Charges.

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 prior competitive tendering or approval by the Audit Committee.

4. FINANCING COSTS

A) FINANCE COST BEFORE FAIR VALUE (LOSSES)/GAINS ON DERIVATIVE FINANCIAL INSTRUMENTS

Group	2019 £m	2018 £m
Finance income	**5.0**	3.9
Interest payable on bonds	**(94.5)**	(86.7)
Indexation on index-linked bonds	**(39.1)**	(45.7)
Indexation on index-linked loan	**(6.5)**	(9.6)
Interest payable on finance leases (including swaps to RPI)	**(17.6)**	(20.8)
Other loan interest	**(19.1)**	(20.0)
Other interest payable and finance costs	**(5.7)**	(7.0)
Net interest charge on pension scheme liabilities	**(2.0)**	(2.5)
Capitalisation of borrowing costs under IAS 23 (2019: 5.1%; 2018: 6.1%)	**15.9**	16.4
Financial expenses	**(168.6)**	(175.9)
Net finance cost before fair value adjustments	**(163.6)**	(172.0)

B) FAIR VALUE (LOSSES)/GAINS ON DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges. Consequently, the Group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 15 in respect of derivative financial instruments held on the balance sheet.)

Group	2019 £m	2018 £m
Fair value (losses)/gains on interest rate swaps	**(1.3)**	3.6
Fair value (losses)/gains on index-linked swaps	**(27.4)**	71.2
Fair value (losses)/gains on trading derivatives	**(0.5)**	5.2
Fair value (losses)/gains on derivative financial instruments	**(29.2)**	80.0

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

5. TAXATION

Analysis of credit in the year

Group	2019 £m	2018 £m
Current tax		
Current tax on loss for the year	**0.3**	0.4
Current tax on research and development credit	**(0.1)**	(0.3)
Adjustment in respect of prior years	**(0.4)**	0.9
Total current tax	**(0.2)**	1.0
Deferred tax		
Origination and reversal of timing differences	**20.4**	2.3
Adjustment in respect of prior year	**0.6**	(0.7)
Total deferred tax (note 6)	**21.0**	1.6
Taxation	**20.8**	2.6

The current tax credit of £0.3m (2018: £0.4m) has arisen from the surrender of tax losses relating to energy efficient capital expenditure.

Operating expenditure includes a tax credit of £0.5m (2018: £1.4m) relating to research and development expenditure. The tax credit is taxable and the corresponding charge of £0.1m (2018: £0.3m) is shown above.

Tax trading losses carried forward as at 31 March 2019 are circa £nil (2018: circa £nil) as a result of disclaiming capital allowances.

Adjustments in respect of prior years relate to revisions to deferred tax balances in respect of capital expenditure, and adjustments to tax credits for energy efficient capital expenditure and the remediation of contaminated land.

The Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantially enacted on 19 September 2016.

The effective rate of tax for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

Group	2019 £m	2018 £m
Loss before tax	**(123.9)**	(14.8)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2018: 19%)	**23.5**	2.8
Effect of:		
Adjustments in respect of prior years	**0.2**	0.1
Other permanent differences	**(1.4)**	(1.0)
Effect of pension payments in excess of service charge	**0.8**	0.7
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	**(2.3)**	–
Taxation	**20.8**	2.6

6. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2018: 17%).

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

Group	2019 £m	2018 £m
At 1 April	**441.2**	413.2
Credit to Income Statement	**(21.0)**	(1.6)
(Credit)/charge to the Statement of Comprehensive Income	**(2.6)**	2.8
Charge to revaluation reserve	**22.5**	26.9
At 31 March	**440.1**	441.2

Analysis of amounts charged to the Statement of Comprehensive Income and revaluation reserve:

Group	2019 £m	2018 £m
Defined benefit pension schemes	**(3.4)**	2.1
Reallocation of tax from income statement – pension payment in excess of service charge	**0.8**	0.7
(Credited)/charged to the Statement of Comprehensive Income	**(2.6)**	2.8
Revaluation of fixed assets	**22.5**	26.9
Charged to the revaluation reserve	**22.5**	26.9

Group	2019 £m	2018 £m
Effect of:		
Tax allowances in excess of depreciation	**277.4**	281.0
Deferred tax on revaluation of fixed assets	**243.7**	234.1
Capital gains rolled over	**2.7**	2.7
Deferred tax on tax losses carried forward	**(2.0)**	(1.4)
Deferred tax on losses on derivative financial instruments	**(64.8)**	(60.7)
Pensions	**(15.5)**	(12.9)
Other tax differences	**(1.4)**	(1.6)
Deferred tax	**440.1**	441.2

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 years.

The Company has no deferred tax balance (2018: nil).

7. REVALUATION RESERVE

The economic value of the Company's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its five yearly price reviews. The Company 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 2019 the total value of tangible and intangible fixed assets for Dŵr Cymru Cyfyngedig has been revalued to the Company's 'shadow RCV', being the 31 March 2019 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	2019 £m	2018 £m
Revaluation reserve as at 1 April	**1,142.8**	1,069.1
Revaluation of assets to RCV	**132.2**	158.1
Depreciation charge on revalued assets	**(75.9)**	(69.3)
	56.3	88.8
Deferred tax on revaluation	**(22.5)**	(26.9)
Deferred tax on depreciation charge	**12.9**	11.8
	(9.6)	(15.1)
Revaluation reserve as at 31 March	**1,189.5**	1,142.8

8. PROPERTY, PLANT AND EQUIPMENT

Group — 2019	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2018	41.7	2,362.3	4,105.5	263.2	6,772.7
Revaluation	–	4.1	–	–	4.1
Additions net of grants and contributions	–	124.6	238.6	9.0	372.2
Disposal	–	–	(3.6)	–	(3.6)
At 31 March 2019	**41.7**	**2,491.0**	**4,340.5**	**272.2**	**7,145.4**
Accumulated depreciation					
At 1 April 2018	21.3	–	1,177.7	261.6	1,460.6
Revaluation	–	(54.0)	(74.1)	–	(128.1)
Charge for the year	0.8	54.0	217.1	7.2	279.1
Released on disposal	–	–	(2.9)	–	(2.9)
At 31 March 2019	**22.1**	**–**	**1,317.8**	**268.8**	**1,608.7**
Net book value					
At 31 March 2019	**19.6**	**2,491.0**	**3,022.7**	**3.4**	**5,536.7**
At 31 March 2019 (historic cost basis)	**19.6**	**1,815.3**	**2,265.2**	**3.4**	**4,103.5**

8. PROPERTY, PLANT AND EQUIPMENT CONTINUED

The net book value of property, plant and equipment includes £285.8m in respect of assets in the course of construction (2018: £278.5m).

The net book value of property, plant and equipment includes £67.4m of borrowing costs capitalised in accordance with IAS 23 (2018: £55.4m) of which £13.9m were additions in the year (2018: £14.1m).

Group — 2018	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2017	41.7	2,236.5	3,866.1	264.1	6,408.4
Revaluation	–	21.5	–	–	21.5
Additions net of grants and contributions	–	104.3	239.4	5.7	349.4
Disposal	–	–	–	(6.6)	(6.6)
At 31 March 2018	41.7	2,362.3	4,105.5	263.2	6,772.7
Accumulated depreciation					
At 1 April 2017	20.6	–	1,059.2	263.4	1,343.2
Revaluation	–	(48.6)	(88.0)	–	(136.6)
Charge for the year	0.7	48.6	206.5	4.1	259.9
Released on disposal	–	–	–	(5.9)	(5.9)
At 31 March 2018	21.3	–	1,177.7	261.6	1,460.6
Net book value					
At 31 March 2018	20.4	2,362.3	2,927.8	1.6	5,312.1
At 31 March 2018 (historic cost basis)	20.4	1,730.8	2,182.3	1.6	3,935.1

ASSETS HELD UNDER FINANCE LEASES

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

Group — 2019	Infrastructure assets £m	Operational structures £m	Total £m
At 31 March 2019			
Valuation	662.9	117.7	780.6
Accumulated depreciation	–	(81.7)	(81.7)
Net book value	**662.9**	**36.0**	**698.9**

Group — 2018	Infrastructure assets £m	Operational structures £m	Total £m
At 31 March 2018			
Valuation	669.9	117.7	787.6
Accumulated depreciation	–	(77.7)	(77.7)
Net book value	669.9	40.0	709.9

The parent company owns no property, plant or equipment.

9. INTANGIBLE ASSETS

Group — 2019	**Cost £m**	**Amortisation £m**	**Net book value £m**
At 1 April 2018	323.3	(177.0)	146.3
Additions/(charge for the year)	48.5	(19.7)	28.8
At 31 March 2019	**371.8**	**(196.7)**	**175.1**

Intangible assets principally comprise computer software and related system developments.

Group — 2018	**Cost £m**	**Amortisation £m**	**Net book value £m**
At 1 April 2017	274.8	(155.3)	119.5
Additions/(charge for the year)	48.5	(21.7)	26.8
At 31 March 2018	323.3	(177.0)	146.3

The net book value of intangible assets includes £24.3m in respect of assets in the course of construction (2018: £36.7m). The net book value of intangible assets includes £7.1m of borrowing costs capitalised in accordance with IAS 23 (2018: £5.6m), of which £2.0m were additions in the year (2018: £2.3m).

The parent company owns no intangible assets.

10. INVESTMENTS

GROUP

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

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

PARENT COMPANY

The parent company has a £1 investment in Glas Cymru (Securities) Cyfyngedig (100% holding) and a £100,000 investment in Welsh Water Holdings Limited (100%). It also has indirect investments in the following subsidiary undertakings:

	Principal activities	**Tax residency**	**Country of incorporation**	**Holding**
Glas Cymru Anghyfyngedig	Holding Company,	UK resident	England and Wales	100%
Dŵr Cymru (Holdings) Limited	Holding company	UK resident	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	UK resident	England and Wales	100%
Dŵr Cymru (Financing) Limited	Raising finance	UK resident	Cayman Islands	100%
Dŵr Cymru (Financing) UK Plc (incorporated 16 April 2019)	Raising finance	UK resident	England and Wales	100%
Cambrian Utilities Limited	Retail services in the competitive market	UK resident	England and Wales	100%
Welsh Water Infrastructure Limited	Competitive business activity in the water sector and other associated sectors	UK resident	England and Wales	100%
Welsh Water Organic Energy Limited	Food waste processing, treatment and recycling	UK resident	England and Wales	100%
Welsh Water Organic Energy (Cardiff) Limited	Operation and maintenance of an anaerobic digestion food waste facility	UK resident	England and Wales	100%
Welsh Water Organic Waste Limited (incorporated 17 July 2018)	Tankering of liquid waste for disposal	UK resident	England and Wales	100%

10. INVESTMENTS CONTINUED

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

The Company has revalued its investments in subsidiary undertakings to fair value; the carrying value is revalued annually and subject to an impairment review.

Further information on the Group's structure is available in the Annual Report on page 59.

Investment in subsidiaries	2019 £m	2018 £m
At 1 April	**3,398.1**	3,228.6
Revaluation	**435.4**	169.5
At 31 March	**3,833.5**	3,398.1

The parent Company's investments in subsidiary companies are initially recognised at cost and subsequently revalued to fair value using a discounted cash flow method. The fair value of investments comprises mainly the fair value of the regulated water and sewerage company, Dŵr Cymru Cyfyngedig. A present value has been determined using a discount rate based on the regulator's allowed weighted average cost of capital and a terminal value being the projected regulatory capital value.

We have set the discount rate at 2.4% , being the WACC used by Ofwat in its price review methodology for the period 2020 to 2025.

The RCV is set by Ofwat every five years and is, in effect, a proxy for the economic value in use of the appointed business for Dŵr Cymru Cyfyngedig. The terminal value is based on a projection of the RCV resulting from the cash flows in our financial forecast.

The forecasts on which the cash flows and RCV movements are based are drawn from our 2019 Financial Plan, itself based on our PR19 business plan submission to Ofwat.

See also the critical accounting estimates in note 1.

Revaluation amounts are recognised in other comprehensive income.

11. TRADE AND OTHER RECEIVABLES

Group	2019 £m	2018 £m
Current		
Trade receivables	**560.3**	556.7
Provision for impairment of receivables	**(78.7)**	(83.8)
Trade receivables – net	**481.6**	472.9
Prepayments and accrued income	**80.6**	88.1
Other receivables	**11.3**	16.7
	573.5	577.7
Non-current		
Other receivables	**0.9**	0.9
Total trade and other receivables	**574.4**	578.6

As at 31 March 2019, based on a review of historical collection rates, it was considered that £78.7m (2018: £83.8m) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired. We have set the discount rate at 2.4%, being the WACC used by Ofwat in its price review methodology for the period 2020 to 2025. The RCV is set by Ofwat every five years and is, in effect, a proxy for the economic value in use of the appointed business for Dŵr Cymru Cyfyngedig. The terminal value is based on a projection of the RCV resulting from the cash flows in our financial forecasts. The forecasts on which the cash flows and RCV movements are based are drawn from our 2019 Financial Plan, itself based on our PR19 business plan submission to Ofwat.

11. TRADE AND OTHER RECEIVABLES CONTINUED

2019 Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
Billed in advance	**367.7**	**–**	**367.7**
Under one month	**27.2**	**(2.3)**	**24.9**
Between one and six months	**36.8**	**(2.7)**	**34.1**
Between six months and one year	**28.8**	**(2.6)**	**26.2**
Between one and two years	**44.0**	**(30.5)**	**13.5**
Between two and three years	**32.5**	**(23.3)**	**9.2**
Over three years	**23.3**	**(17.3)**	**6.0**
	560.3	**(78.7)**	**481.6**

2018 Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
Billed in advance	369.8	–	369.8
Under one month	25.8	(2.7)	23.1
Between one and six months	35.5	(3.3)	32.2
Between six months and one year	26.5	(3.2)	23.3
Between one and two years	42.5	(30.9)	11.6
Between two and three years	30.5	(23.1)	7.4
Over three years	26.1	(20.6)	5.5
	556.7	(83.8)	472.9

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

	2019 £m	**2018 £m**
At 1 April	**83.8**	95.8
Charge to Income Statement	**19.9**	20.8
Receivables written off during the year as uncollectable	**(25.0)**	(32.8)
At 31 March	**78.7**	83.8

During the year the Group has written off £25.0m of debt which had been provided for in full (2018: £32.8m).

The total charge to the income statement of £21.0m (2018: £22.1m) includes the bad debt element of collection charges under arrangements with third parties who collect debt on the Group's behalf (2019: £1.1m, 2018: £1.3m).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

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 tables below illustrate the impact of applying the "expected loss" model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors, including the impact of charging orders which improve the underlying collectability of debt. The Group holds around 6,000 charging orders as collateral against £11m of debt (2018: 4,100 orders against £9m of debt).

11. TRADE AND OTHER RECEIVABLES CONTINUED

2019	Historical default rates %	Forward-looking adjustment %	Adjustment total %	Historical impairment £m	Forward-looking adjustment £m	Total impairment £m
Billed in advance	**–**	**–**	**–**	**–**	**–**	**–**
Under one month	**9.9%**	**(1.5%)**	**8.4%**	**2.7**	**(0.4)**	**2.3**
Between one and six months	**8.8%**	**(1.5%)**	**7.3%**	**3.2**	**(0.5)**	**2.7**
Between six months and one year	**10.9%**	**(1.9%)**	**9.0%**	**3.1**	**(0.5)**	**2.6**
Between one and two years	**77.2%**	**(8.2%)**	**69.0%**	**34.0**	**(3.5)**	**30.5**
Between two and three years	**77.8%**	**(6.1%)**	**71.7%**	**25.3**	**(2.0)**	**23.3**
Over three years	**80.9%**	**(6.6%)**	**74.3%**	**18.8**	**(1.5)**	**17.3**
				87.1	**(8.4)**	**78.7**

2018	Historical default rates %	Forward-looking adjustment %	Adjustment total %	Historical impairment £m	Forward-looking adjustment £m	Total impairment £m
Billed in advance	–	–	–	–	–	–
Under one month	10.7%	(0.4%)	10.3%	2.8	(0.1)	2.7
Between one and six months	9.5%	(0.3%)	9.2%	3.4	(0.1)	3.3
Between six months and one year	11.9%	–	11.9%	3.2	–	3.2
Between one and two years	73.8%	(2.1%)	71.7%	31.8	(0.9)	30.9
Between two and three years	77.3%	(2.3%)	75.0%	23.9	(0.8)	23.1
Over three years	81.5%	(3.1%)	78.4%	21.4	(0.8)	20.6
				86.5	(2.7)	83.8

12. CASH AND CASH EQUIVALENTS

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Cash at bank and in hand	**155.4**	10.0	**–**	–
Short-term deposits	**345.7**	278.5	**8.6**	8.6
	501.1	288.5	**8.6**	8.6

The effective interest rate on short-term deposits as at 31 March 2019 was 0.8% (2018: 0.5%) and these deposits had an average maturity of 21 days (2018: 22 days). All cash and cash equivalents were held in sterling.

13. TRADE AND OTHER PAYABLES

Group Current	2019 £m	2018 £m
Trade payables	**57.3**	45.7
Capital payables	**44.6**	60.3
Social security and other taxes	**5.2**	3.4
Accruals and deferred income	**451.1**	454.7
	558.2	564.1

Group Non-current	2019 £m	2018 £m
Deferred income	**264.7**	233.9

14. OTHER FINANCIAL LIABILITIES — BORROWINGS

Group Current	2019 £m	2018 £m
Overdrawn funds	**139.3**	5.1
Interest accruals	**2.1**	2.4
Bonds	**0.3**	0.3
Term loans	**29.2**	21.7
Finance lease obligations	**24.5**	12.0
	195.4	41.5

Group Non-current	2019 £m	2018 £m
Interest accruals	**48.9**	48.8
Bonds	**2,395.1**	2,356.1
Term loans	**715.8**	488.5
Finance lease obligations	**410.5**	423.9
	3,570.3	3,317.3

The parent Company has no borrowings.

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

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

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

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

The Group's Class A Bonds of £1,026m (2018: £1,008m) benefit from a guarantee from Assured Guaranty (Europe) Plc. Assured Guaranty's credit rating is graded as A2/AA by Moody's and Standard & Poor's 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 Neg/A Neg/A from Moody's, Standard & Poor's 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 £1,371m (2018: £1,350m).

15. OTHER FINANCIAL ASSETS AND LIABILITIES – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges and movements in their fair value are taken to the Income Statement (see note 4b).

Fair values **Group — 2019**	**Assets** **£m**	**Liabilities** **£m**
Current		
Index-linked swaps	**3.5**	**(17.7)**
Interest rate swaps	**–**	**(9.2)**
Power hedging swaps	**1.1**	**(0.8)**
	4.6	**(27.7)**
Non-current		
Index-linked swaps	**–**	**(324.9)**
Interest rate swaps	**–**	**(82.0)**
Power hedging swaps	**3.8**	**–**
	3.8	**(406.9)**
Total	**8.4**	**(434.6)**

Fair values **Group — 2018**	**Assets** **£m**	**Liabilities** **£m**
Current		
Index-linked swaps	3.5	(20.2)
Interest rate swaps	–	(9.0)
Power hedging swaps	2.9	–
	6.4	(29.2)
Non-current		
Index-linked swaps	–	(295.0)
Interest rate swaps	–	(80.9)
Power hedging swaps	1.9	(0.3)
	1.9	(376.2)
Total	8.3	(405.4)

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 IFRS 9; the Group has no such embedded derivatives.

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

15. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

INTEREST RATE SWAPS

At 31 March 2019 an interest rate swap fixed the interest rate on £192m (2018: £192m) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031 and the fixed interest rate is 5.67% per annum, payable quarterly.

INDEX-LINKED SWAPS

FINANCE LEASE SWAPS

The index-linked swaps have the effect of index-linking the interest rate on £380m (2018: £381m) 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 2019 was £397m (2018: £399m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2019. 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	£397m amortising (2018: £399m amortising)
Average swap maturity	17 years (2018: 18 years)
Average interest rate	1.43% fixed plus RPI (2018: 1.40% 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	£144m (2018: £140m)
Swap maturity	38 years (2018: 39 years)
Interest rate	1.35% indexed by RPI (2018: 1.35% indexed by RPI)

16. FINANCING RISK MANAGEMENT

The policies of the Group in respect of financing risk management are included in the accounting policies note on page 135. 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:

	2019	**2018**
Assets:		
Cash and cash equivalents	**0.8%**	0.5%
Liabilities:		
Bonds	**4.1%**	4.1%
Term loans	**1.1%**	0.6%
Other unsecured loans	**4.3%**	5.0%
Finance lease obligations	**0.7%**	0.6%

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

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 15. They also exclude the indexation charge applicable to the index-linked bonds.

16. FINANCING RISK MANAGEMENT CONTINUED

B) LIQUIDITY RISK

Group — 2019	Within 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	**501.1**	**–**	**–**	**–**	**501.1**
Trade and other receivables	**574.4**	**–**	**–**	**–**	**574.4**
	1,075.5	**–**	**–**	**–**	**1,075.5**
Liabilities:					
Cash and cash equivalents	**139.3**	**–**	**–**	**–**	**139.3**
Bonds	**0.7**	**325.7**	**2.2**	**2,073.7**	**2,402.3**
Term loans	**29.1**	**48.4**	**161.4**	**505.7**	**744.6**
Other unsecured loans	**0.1**	**0.1**	**0.1**	**0.1**	**0.4**
Finance lease obligations	**24.5**	**15.1**	**18.6**	**376.8**	**435.0**
Trade and other payables	**558.2**	**5.9**	**17.7**	**241.1**	**822.9**
Future interest payable	**119.9**	**119.8**	**285.2**	**735.1**	**1,260.0**
	871.8	**515.0**	**485.2**	**3,932.5**	**5,804.5**

Group — 2018	Within 1 year £m	1 – 2 years £m	2 – 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	288.5	–	–	–	288.5
Trade and other receivables	577.7	–	–	–	577.7
	866.2	–	–	–	866.2
Liabilities:					
Cash and cash equivalents	5.1	–	–	–	5.1
Bonds	0.7	0.7	327.1	2,035.4	2,363.9
Term loans	21.6	29.1	155.0	304.0	509.7
Other unsecured loans	0.1	0.1	0.3	–	0.5
Finance lease obligations	12.0	13.5	32.8	377.6	435.9
Trade and other payables	564.1	5.2	15.6	213.1	798.0
Future interest payable	121.0	124.1	368.2	1,042.4	1,655.7
	724.6	172.7	899.0	3,972.5	5,768.8

16. FINANCING RISK MANAGEMENT CONTINUED

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

	2019 £m	2018 £m
Gross finance lease liabilities		
Within one year	**32.8**	15.9
Between two and five years	**69.3**	82.1
After five years	**429.3**	438.3
	531.4	536.3
Future interest	**(96.4)**	(100.4)
Net finance lease liabilities	**435.0**	435.9
Net finance lease liabilities are repayable as follows:		
Within one year (note 14)	**24.5**	12.0
Between two and five years	**33.7**	46.3
After five years	**376.8**	377.6
Total over one year (note 14)	**410.5**	423.9

C) FAIR VALUES

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

	2019 Book value £m	2019 Fair value £m	2018 Book value £m	2018 Fair value £m
Bonds	**2,402.3**	**3,242.3**	2,363.9	3,171.2

The fair values of all other financial instruments are equal to the book values. In 2018 the Group announced a benchmark sized GBP Class B bond transaction. The bank proceeds of £300m were settled on 24 January 2018 with a maturity date of 31 March 2036 and a fixed coupon of 2.5%.

D) BORROWING FACILITIES

As at 31 March 2019, the Group had available undrawn committed borrowing facilities of £170m expiring as set out below, in respect of which all conditions precedent had been met (2018: £420m).

	2019 £m	2018 £m
Expiring in less than one year:		
– term loan facility	**–**	250
Expiring in more than one year:		
– revolving credit facilities	**170**	170
	170	420

The undrawn facilities comprise £170m revolving credit facilities which are available until November 2020. There is also a £10m overdraft facility renewable on an annual basis.

On 17 December 2018, a loan for £250m with the European Investment Bank was fully drawn.

16. FINANCING RISK MANAGEMENT CONTINUED

As at 31 March 2019 there was also a special liquidity facility of £135m (2018: £135m); this is required in order to meet certain interest and other obligations that may not 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. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. Up until 2 April 2019, the facility was a 364-day bank facility split equally between four providers. From 3 April 2019 the facility has been replaced with a five-year evergreen facility provided by an insurer.

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

E) CAPITAL RISK MANAGEMENT

Gearing ratios	2019 £m	2018 £m
Total borrowings	**(3,766)**	(3,359)
Less: cash and cash equivalents	**501**	289
Net debt	**(3,265)**	(3,070)
Regulatory capital value (RCV)	**5,671**	5,468
Total capital	**2,406**	2,398
Less: unamortised bond costs and swap indexation	**(52)**	(48)
Total capital per bond covenants	**2,354**	2,350
Gearing ratio	**58%**	57%

As set out on page 107, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

Under the Common Terms Agreement regulatory gearing is calculated as the level of net debt in the whole business securitisation group (under Glas Cymru Anghyfyngedig) relative to the regulatory capital value.

17. PROVISIONS

Group — 2019	Restructuring provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2018	**2.4**	**4.2**	**2.3**	**8.9**
Charged to Income Statement	**–**	**1.4**	**–**	**1.4**
Unused amounts reversed	**–**	**–**	**(0.8)**	**(0.8)**
Utilised in year	**(0.8)**	**(2.1)**	**–**	**(2.9)**
At 31 March 2019	**1.6**	**3.5**	**1.5**	**6.6**
Split as:				
Amounts to be utilised within one year	**1.6**	**1.3**	**1.1**	**4.0**
Amounts to be utilised after more than one year	**–**	**2.2**	**0.4**	**2.6**
At 31 March 2019	**1.6**	**3.5**	**1.5**	**6.6**

Group — 2018	Restructuring provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2017	4.0	4.3	2.5	10.8
Charged to Income Statement	–	1.2	–	1.2
Unused amounts reversed	–	–	(0.1)	(0.1)
Utilised in year	(1.6)	(1.3)	(0.1)	(3.0)
At 31 March 2018	2.4	4.2	2.3	8.9
Split as:				
Amounts to be utilised within one year	1.0	1.3	0.1	2.4
Amounts to be utilised after more than one year	1.4	2.9	2.2	6.5
At 31 March 2018	2.4	4.2	2.3	8.9

The parent Company had no provisions at 31 March 2019 (2018: none).

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, and has now been substantially utilised.

UNINSURED LOSS PROVISION

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

OTHER PROVISIONS

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

18. NET CASH INFLOW FROM OPERATING ACTIVITIES

A) CASH GENERATED FROM OPERATIONS

Reconciliation of operating profit to cash generated from operations:

Group	2019 £m	2018 £m
Operating profit	**68.7**	75.4
Adjustments for:		
Depreciation and amortisation	**293.0**	276.3
Changes in working capital:		
Increase in trade and other receivables	**(2.7)**	(14.6)
Increase in inventories	**(0.8)**	(0.4)
Increase in trade and other payables	**11.8**	17.7
Pension contributions above service cost	**(6.7)**	(5.0)
Decrease in provisions	**(2.3)**	(1.9)
	(0.7)	(4.2)
Cash generated from operations	**361.0**	347.5

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	2019 £m	2018 £m
Interest payable per income statement	**168.6**	175.9
Less non-cash items:		
Indexation on index-linked bonds	**(39.1)**	(45.7)
Indexation on index-linked debt	**(6.5)**	(9.6)
Amortisation of bond issue costs	**(0.5)**	(0.3)
Interest charge on pension scheme liabilities	**(2.0)**	(2.5)
Amortisation of bond issue premium	**0.7**	0.7
Effect of capitalisation under IAS 23	**15.9**	16.4
Increase in accruals	**(4.4)**	(2.0)
	(35.9)	(43.0)
Interest paid	**132.7**	132.9

19. ANALYSIS AND RECONCILIATION OF NET (DEBT)/FUNDS

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

A) NET (DEBT)/FUNDS AT THE BALANCE SHEET DATE MAY BE ANALYSED AS:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Cash and cash equivalents	**501.1**	288.5	**8.6**	8.6
Debt due after one year	**(3,110.9)**	(2,844.6)	**–**	–
Debt due within one year	**(168.8)**	(27.1)	**–**	–
Finance leases	**(435.0)**	(435.9)	**–**	–
Accrued interest	**(51.0)**	(51.2)	**1.3**	0.2
	(3,765.7)	(3,358.8)	**1.3**	0.2
Net (debt)/funds	**(3,264.6)**	(3,070.3)	**9.9**	8.8

B) THE MOVEMENT IN NET (DEBT)/FUNDS DURING THE YEAR MAY BE SUMMARISED AS:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Net (debt)/funds at start of year	**(3,070.3)**	(2,877.5)	**8.8**	30.1
Movement in net cash	**212.6**	187.9	**–**	(21.5)
Movement in debt arising from cash flows	**(361.5)**	(326.9)	**–**	–
Movement in net (debt)/funds arising from cash flows	**(148.9)**	(139.0)	**–**	(21.5)
Movement in accrued interest	**0.2**	1.6	**1.1**	0.2
Indexation of index-linked debt	**(45.6)**	(55.3)	**–**	–
Other non-cash movements	**–**	(0.1)	**–**	–
Movement in net (debt)/funds during the year	**(194.3)**	(192.8)	**1.1**	(21.3)
Net (debt)/funds at end of year	**(3,264.6)**	(3,070.3)	**9.9**	8.8

20. EMPLOYEES AND DIRECTORS

Staff costs for the Group during the year

	2019 £m	2018 £m
Wages and salaries	**133.4**	124.7
Social security costs	**13.5**	13.0
Other pension costs	**12.7**	12.7
	159.6	150.4

Of the above, £60.3m (2018: £53.8m) has been capitalised, being the investment cost of employees' work on the capital programme.

	2019 Number	2018 Number
Average number of people employed by the Group (including Executive Directors)	**3,447**	3,387

For further information see the Remuneration Report on page 80.

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 year other than the Directors.

21. PENSION COMMITMENTS

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

The DCWW Pension Scheme was closed to new members from 31 December 2005 and 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.

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 2019, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

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 2019 and the principal assumptions made by the actuary were:

	2019	2018
Discount rate	**2.6%**	2.8%
Inflation assumption	**3.2%**	3.1%
Rate of increase in pensionable salaries	**3.2%**	3.1%
Rate of increase in pensions in payment	**3.1%**	3.0%
Post retirement mortality (life expectancy)		
– Current pensioners aged 65 – males	**87.1 years**	87.1 years
– Current pensioners aged 65 – females	**89.2 years**	89.1 years
– Future pensioners aged 65 (currently aged 45) – males	**88.5 years**	88.4 years
– Future pensioners aged 65 (currently aged 45) – females	**90.7 years**	90.6 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.

21. PENSION COMMITMENTS CONTINUED

Changes in the defined benefit obligation are as follows:

	2019 £m	2018 £m
At 1 April	**474.1**	497.3
Current service cost	**0.4**	0.3
Interest expense	**13.0**	13.5
Remeasurement: loss/(gain) from change in financial assumptions	**24.9**	(8.7)
Benefits paid	**(24.0)**	(28.3)
At 31 March	**488.4**	474.1

Changes in the fair value plan assets are as follows:

	2019 £m	2018 £m
At 1 April	**398.0**	404.9
Interest income	**10.9**	11.0
Experience gains	**5.0**	3.5
Contributions	**7.0**	6.9
Benefits paid	**(24.0)**	(28.3)
At 31 March	**396.9**	398.0

Scheme assets	2019 £m	2018 £m
Cash	**2.6**	4.4
Equity	**303.1**	310.0
Absolute return	**20.2**	20.0
Property	**29.1**	28.6
Private Equity	**41.9**	35.0
Total assets	**396.9**	398.0

With the exception of cash, assets consist of pooled investment funds, which are not quoted on an active market, shown by the category in the table above. Of the total, assets with a fair value of £149m are Level 3 financial assets (2018: £145m); these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. 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 assumption during the year.

	2019 £m	2018 £m
Present value of funded obligations	**(488.4)**	(474.1)
Fair value of plan assets	**396.9**	398.0
	(91.5)	(76.1)
EFRBS unfunded liability	**(4.7)**	(4.3)
Net defined benefit liability recognised in the balance sheet	**(96.2)**	(80.4)

The contributions paid in the year to 31 March 2019 include special contributions of £6.7m (2018: £6.7m). The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ending 31 March 2020 amount to £3.5m (2018: £6.7m).

21. PENSION COMMITMENTS CONTINUED

	Change in assumption	Movement in liabilities
Discount rate	0.10%	9.0m
Price inflation	0.10%	8.5m
Life expectancy	1 year	13.7m

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

22. BUSINESS COMBINATIONS

On 19 December 2017, the Group acquired 100% of the share capital of Kelda Organic Energy Limited for £150,000. On the same date, the Group also acquired 100% of the share capital of Kelda Organic Energy (Cardiff) Limited for £350,000. These companies' names were changed, on 8 January 2018, to Welsh Water Organic Energy Limited and Welsh Water Organic Energy (Cardiff) Limited respectively. WWOE operates a Public Private Partnership Concession Contract with the City of Cardiff Council and the Vale of Glamorgan Council for food and green waste treatment and recycling and WWOE(C) operates and maintains an anaerobic digestion food waste facility and a green waste composting facility in Cardiff.

As a result of these acquisitions, the Group is expected to secure electricity production for its Cardiff Wastewater Treatment Works, increase collaboration with Cardiff Council and explore new avenues in energy production. An intangible asset of £316,011 arising from the acquisition is attributable to the value of the contract with the Councils.

The financial results of both of the entities acquired in the year ended 31 March 2018 have been included in these consolidated financial statements. The following tables and narrative summarise the considerations paid for WWOE and WWOE(C) and the fair value of assets acquired and liabilities assumed at the acquisition date, as well as the elements of their results relevant to the Group during the year to 31 March 2018:

Consideration at 19 December 2017	**WWOE £000**	**WWOE(C) £000**
Cash	150	350
Total consideration	150	350

Fair value of recognised amounts of identifiable assets acquired and liabilities assumed	**WWOE £000**	**WWOE(C) £000**
Cash and equivalents	–	–
Property, plant and equipment	17,138	170
Trade and other receivables	174	496
Trade and other payables	(544)	(109)
Intercompany loan	(17,438)	–
Deferred tax assets	122	175
Total identifiable net (liabilities)/assets	(548)	732
Intangible asset	698	(382)
Total	150	350

WELSH WATER ORGANIC ENERGY LIMITED

Acquisition-related costs of £703,000 were charged to operating expenses in the Consolidated income statement for the year ended 31 March 2018.

The fair value of trade and other receivables was £174,000 at 31 March 2018 and included trade receivables with a fair value of £160,000. The gross contractual amount for trade receivables due is £160,000, of which £nil was expected to be uncollectable.

The revenue included in the Consolidated statement of comprehensive income for the period 19 December 2017 to 31 March 2018 was £360,000. WWOE also contributed a loss before tax of £67,000 over the same period.

Had WWOE been consolidated from 1 April 2017, the Consolidated statement of income would show pro forma revenue of £3,218,000 and a loss of £871,000.

22. BUSINESS COMBINATIONS CONTINUED

WELSH WATER ORGANIC ENERGY (CARDIFF)

Acquisition-related costs of £301,000 were charged to operating expenses in the Consolidated income statement for the year ended 31 March 2018.

The fair value of trade and other receivables was £697,953 as at 31 March 2018 and included trade receivables with a fair value of £52,684. The gross contractual amount for trade receivables due is £52,684, of which £nil was expected to be uncollectable.

The revenue included in the Consolidated statement of comprehensive income for the period 19 December 2017 to 31 March 2018 was £157,823. WWOE(C) also contributed a loss before tax of £529,199 over the same period.

Had WWOE(C) been consolidated from 1 April 2017, the Consolidated statement of income would show pro forma revenue of £520,740 and a loss before tax of £1,907,817.

23. CAPITAL AND OTHER FINANCIAL COMMITMENTS

The Group's business plan at 31 March 2019 shows net capital expenditure and infrastructure renewals expenditure of £466m (2018: £478m) during the next financial year: £434m relates to the AMP6 plan and £32m for AMP7 early start schemes. While only a portion of this amount has been formally contracted for, the Group is effectively committed to a majority of the total as part of the capital investment programme approved by its regulator, Ofwat.

24. RELATED PARTY TRANSACTIONS

In accordance with the exemption afforded by IAS 24 there is no disclosure in the Consolidated financial statements of transactions with entities that are part of the Glas Cymru Holdings Cyfyngedig Group.

The parent company issued an intercompany loan to Welsh Water Holdings Limited, a wholly-owned subsidiary, during the year ended 31 March 2018. As at 31 March 2019, the balance on this loan stood at £21,553,702 (2018: £21,553,702). Interest is chargeable at a fixed rate of 5% and £1,077,685 was charged during the year (2018: £286,194). As at 31 March 2019 accrued interest receivable relating to this totalled £1,363,879 (2018: £286,194).

25. STATUS OF THE COMPANY

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

26. ELAN VALLEY TRUST FUND

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

The sum of £31.7m, representing the consideration for the conditional sale, was invested in a trust fund. The principal function of the fund was to provide an income to Welsh Water Authority, while 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 2019 the market value of the trust fund was £117m (2018: £115m).

Interest receivable includes £2.6m (2018: £2.8m) in respect of distributions from the Elan Valley Trust Fund.

27. CONTINGENT LIABILITIES

There were no contingent liabilities other than those arising in ordinary course of the Group's business and in respect of 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, company number 09917809, registered office Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY. The largest and smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig.


Dŵr Cymru
Welsh Water

APPENDICES

THE PAGES WHICH FOLLOW DEFINE TERMS USED THROUGHOUT THIS ANNUAL REPORT AND ACCOUNTS AND EXPLAIN THE MEASURES OF SUCCESS AGAINST WHICH WE TRACK OUR PERFORMANCE.

GLOSSARY

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 44.
Credit rating	Credit ratings provide an assessment of the credit quality of a company which can affect the cost of borrowing.
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 44.
Drinking Water Safety Plan	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 44.
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 Anghyfyngedig 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	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 (ML)	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. See page 63 for further details of their role.
ODI	Outcome Delivery Incentive — This is the mechanism for rewards and penalties which underpins the performance measures set out in our Final Determination Ofwat PR14 business plan.

GLOSSARY CONTINUED

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 2011-12, the UK Government transferred ownership of most of the private sewers in England and Wales to the 11 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	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.
Return of Value	Payments made for the benefit of our customers from distributable profits, that could otherwise be paid out to shareholders as dividends in a shareholder-owned company.
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.
Security and Emergency Measures Directive (SEMD)	Issued by Welsh Government and DEFRA to the water sector to provide guidance on how to respond to major incidents.
Service Incentive Mechanism (SIM)	An Ofwat measure designed to improve the level of customer service that water companies provide.
Service reservoir	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 and surface water 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.
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.
Zonal Studies	Water network improvement programmes to reduce interruptions and increase customer acceptability of water.

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 sample 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 in 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 percentage compliance against the discharge permits.
B3a	Preventing pollutions (cat 1, 2 & 3)	The measure is the number of incidents and the target is to 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 has 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 and 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	The number of customers receiving assistance - the target is to 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.
G1	RIDDOR Incidents	The total number of injuries reported each year to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR). It includes injuries that occur across the wholesale and retail businesses, as well as those involving our main contractors and capital partners.
G2	Competence in Role	We have a "Progression in Role" framework and have established clear role profiles that define key criteria which we use to measure individuals' knowledge, skills and competence to undertake their respective roles. Our objective is that by 2020 (and ongoing beyond that) 95% of the outlined key roles will be deemed competent (with the remainder being new starters in training).
H1	Financing Efficiency (credit rating)	The rating ascribed by the three main rating agencies: S&P, Moody's and Fitch.

SERVING OUR CUSTOMERS AND COMMUNITIES

Glas Cymru Holdings Cyfyngedig
Company Number: 09917809