Glas Cymru Cyfyngedig

Preliminary results

for the year ending 31 March 2013

Foreword to the Preliminary Results Announcement

Basis of preparation

The following announcement of preliminary results includes information which has been extracted direct from the audited Glas Cymru Cyfyngedig Annual Report and Accounts for the year ended 31 March 2013

The independent Auditor's Report set out on pages 15 and 16 refers to the Glas Cymru Cyfyngedig Annual Report and Accounts as a whole. It therefore makes reference to the Directors' Report, the Corporate Governance Statement and the 2013 Remuneration Report, which are excluded from this Preliminary Announcement.

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

Managing Director's Report

In Wales and those adjoining parts of England served by Dŵr Cymru Welsh Water the water industry is owned and managed on behalf of the 3 million people who rely on Dŵr Cymru for the most essential of public services. Our customers continue to benefit from this unique not-for-profit ownership model. The average household bill is today lower in real terms than it was in the year before Glas Cymru secured the ownership of Dŵr Cymru, while we also now help more than 52,000 of our less well off household customers with their bills through a range of affordability tariffs and other means. Stringent tap water quality standards are being met and our rivers and coastal waters are amongst the best in the UK. Customer satisfaction with our service is consistently over 90% and last year we received more thank-you letters and emails from our customers than complaints; when we get it wrong we say so and do our best to put things right. We are proud of the quality of service we offer our customers and we receive many compliments about our "warm voice" service based in Wales.

Financial reserves - or "customer equity" - have risen ten fold since 2001 and now stand at £1.6 billion. With financial gearing reduced again to 63% - down from 93% in 2001 - the Company has the highest credit rating in the utilities sector. This strong financial position allows us to raise long term funds for investment at low cost – and only for the benefit of our customers. Under our ownership model high credit ratings align the interests of our investors – mainly UK based pension funds and life assurance companies – with our customers.

Our ambition is to make full use of the advantages of our very different ownership model to deliver the best possible outcomes for our customers - supplying drinking water of the highest quality and safeguarding the environment that we look after on behalf of the communities that we serve. Last year was another year of significant progress towards this goal. Performance overall was the best it has been and this was achieved despite challenging weather conditions. This is the result of a lot of hard work by a great team of dedicated people in Dŵr Cymru. We continue to improve in all that we do and we are a better and more capable organisation than we were a year ago. Our drive to be the best possible water company for our customers lies at the heart of all that we stand for.

High quality drinking water

Supplying safe drinking water at all times is our most important responsibility - and this means that our tap water must be free from harmful chemicals and bacteria and be acceptable to our customers in terms of appearance, smell and taste. The quality of the water we supply is continuously monitored at our water treatment works and in addition, over the course of a year, more than 750,000 tests are carried out on samples taken from our water sources (lakes, rivers and reservoirs) and from points across the water supply system (including customers' kitchen taps) to verify quality. 300,000 tests are carried out on drinking water samples in accordance with regulatory requirements. All these results are submitted to the Drinking Water Inspectorate ("DWI") and are assessed against water quality standards set by EU Directives and national legislation.

In 2012 the high quality of the water we supply was maintained with 99.96% of samples taken and analysed meeting all drinking water quality standards at customers' taps. We achieved our internal targets on 4 of the 6 indices used by DWI to measure water quality compliance at each point on the water supply system; we also achieved better than industry average performance on 5 of the 6 indices.

The one index where our performance was below industry average was the Distribution Maintenance Index (which measures water quality in the water distribution system and focuses on those parameters responsible for causing discoloured water as a result of turbidity, iron and/or manganese). Our 2012 performance for this index was 99.84%, which was below our internal target of 99.95% and also below the industry average of 99.89% as a result of 15 failures against the standard for iron in samples taken during 2012 (2011: 11 failures). We also received more contacts from customers about discoloured tap water and the rate for 2012 increased to 2.1 per 1,000 customers (2.0 in 2011); this follows several years of steady improvement on this measure of customer satisfaction with our tap water. Since 2001 we have renewed or relined 4,000km of unlined iron water mains but more than 6,500km remain and mitigating the risk of discoloured water from these mains, particularly following a burst or any other change in network flow, is a current priority that will feature in our future plans.

Our accelerated investment programme to improve the reliability of our water supply network – based on our Drinking Water Safety Plans – continues to make good progress and last year we completed schemes at Bala and Llyswen and we are currently on site at Coed Dowlyd, a new service reservoir which will give 70,000 customers in the Colwyn Bay area additional security of supply. The additional investment of £75 million under our "Go to Green" programme to rebuild, refurbish or upgrade 16 water treatment works across Wales is on track and planning permission was recently granted for brand new water treatment works at Llyn Conwy and Dolbenmaen, both in North Wales.

<u>New water quality laboratories</u>
During 2012 we completed successfully the complex and ambitious project of in-sourcing laboratory services from the previous contract provider, building and commissioning a new microbiology laboratory at Bretton in North Wales and a new purpose-built chemistry, microbiology and cryptosporidium laboratory at Newport in South Wales. Together these state-of-the-art facilities provide us with the analytical testing facility for all drinking water samples taken across Dŵr Cymru's supply area. The new laboratories are staffed with 50 scientists which has strengthened further our scientific capability. The Bretton laboratory gained UKAS accreditation in its first year of operation which is testament to the calibre and hard work of our team.

<u>Water Health Partnership for Wales</u>
The Water Health Partnership for Wales, established by Dŵr Cymru in 2006, continues to be an important forum for health and water professionals from across Wales. It brings together water companies, regulators, local authorities, health professionals and Welsh Government officials to share information and learning to improve inter-agency knowledge of public health and drinking water quality issues. The overall aim of the Partnership is to provide a forum for the consistent understanding and management of public health related water quality issues. In addition to routine networking and information sharing, during 2012 the Partnership developed guidance on the provision of drinking water to large temporary events like the National Eisteddfod and on reducing lead in drinking water as well as running several public health emergency exercises.

Reliable sanitation

As important for public health is safe and reliable sanitation, taking away wastewater and protecting both properties and our environment from flooding and pollution.
Following the transfer of private sewers to the regulated water and sewerage companies in England and Wales in October 2011, we are now responsible for maintaining more than 30,000km of sewers, a near doubling of our sewer network. Much of our sewer network is old and often in poor condition and one of our biggest challenges is to minimise the impact of any blockages and other problems on the network. Following the transfer of private sewers we now deal with more than 2,000 blockages each month, a doubling of workload. We continue to improve our response times and in over 99% of cases we manage to deal with the blockage before it causes property flooding or a pollution incident (see below).

<u>"Let's Stop the Block" campaign</u>
Blockages account for around 80% of sewer flooding and pollution incidents in our region. A good proportion of these blockages are the result of the build-up of everyday items, such as flushed away baby-wipes, nappies and sanitary products, and fat, oil and grease poured down the sink. This misuse of our sewers is more often than not due to a lack of awareness about what can and cannot be flushed or poured away, and a lack of understanding of the consequences. The aim of our "Stop the Block" campaign is to drive down the number and cost of blockages, sewer flooding and pollution by tackling the root cause, raising awareness, boosting our customers' understanding and inspiring our customers to act differently.

Our "Let's Stop the Block" campaign was launched in Rhondda Cynon Taff and Caerphilly – blockage hotspots – and has involved media coverage, local advertising, schools roadshows and a series of community events organised in collaboration with a local radio station and Coleg Morgannwg. Our pledging website – letsstoptheblock.com – underpins the whole campaign. Initial analysis shows a big reduction in blockages in the target areas and we will be doing further work to embed the message before rolling the campaign out to other hotspots later this year.

Much of our sewer network is "combined" and drains both wastewater from properties and surface water from roads and roofs. Last year's very wet weather – the third wettest on record - put considerable additional pressures on our sewer network and on our sewerage teams across the business. During the year there were six storms with a return period of greater than "1 in 30 years" and flows in our combined sewer network were at unprecedented levels. Despite this, the total number of flooding incidents was only slightly higher than in the previous year (provisionally 221 incidents, up from 186 in 2011/12). However, this measure of performance excludes flooding as a result of extreme storms and there were a further 35 flooding incidents from hydraulically overloaded sewers during extreme storms; we now have just over 100 properties which have suffered repeat internal flooding from overloaded sewers in the last 10 years, including incidents as a result of extreme weather. We know which properties are at risk of repeat flooding during less extreme weather and during the year we delivered 26 schemes to reduce the number of properties on our "at risk register" to just over 200 properties.

We are witnessing more frequent extreme weather events and our plans for the future must cater for this change in weather patterns. We have developed an industry leading approach to retrofitting sustainable drainage systems to capture, divert or slow down the rate at which rainwater enters our sewer network. This approach not only reduces the risk of flooding or pollution from overloaded sewers following heavy rainfall, it also helps to create a greener and better local environment. We have branded this programme "Rainscape". It involves us working closely with local communities to agree how these improvements are delivered. One of our biggest schemes is in Llanelli where, because of surface water drainage, flows in the sewer network are as high as the neighbouring catchment of Swansea which is three times bigger. The first phase, now underway and costing £12 million, will divert rainfall into natural swales and other green areas reducing by 20% the volume of sewer overflow spills into the environmentally sensitive Loughor Estuary as well as reducing the risk of flooding and enabling economic development.

During the year we invested a total of £43 million on our sewer network; in total we have between October 2011 and March 2013 incurred capital and operating costs of £20 million on operating and maintaining the transferred private sewers. We estimate that there are over 800 private sewage pumping stations that will transfer to Dŵr Cymru in March 2016 and we are currently surveying these poor condition assets with a view to an orderly transfer over the next three years. By taking over responsibility for both private sewers and sewage pumping stations we are serving the public interest as well as removing a source of worry for many of our customers. The cost of these transfers will be reflected in our plans that will be submitted to Ofwat later this year ahead of the next regulatory price review in 2014.

Protecting our environment

We collect and clean the wastewater produced by our household and business customers across our region so as to protect public health and safeguard our rivers and coastal waters from pollution.

Operating our estate of ageing wastewater treatment works so that we continue to protect our rivers and coastal waters - which are among the best in the UK - is one of our toughest jobs. Last year we turned around performance and only 8 of our 838 wastewater treatment works failed to comply with discharge permits; we achieved 100% compliance with the key "look-up" standard for permit compliance. This is a marked improvement on 2011 when 26 works failed one or more consents and is due to a lot of hard work supported by additional targeted investment in refurbishing close to 50 of our worst condition treatment works. The much improved compliance with environmental permits has been acknowledged by our environmental regulator, Natural Resources Wales.

Continuing to renew and improve our wastewater treatment works estate will remain a priority for many years to come. We invested £70 million last year on maintaining and upgrading wastewater treatment works and during the year we completed 41 schemes including at Swansea Bay where we renewed the pumping stations in a £4 million scheme ahead of the 2013 summer season. We are currently on site or about to commence work at nearly 60 locations across our region, including at Heswall on the Wirral, where improvements to the storm water system will reduce the number of spills to the environmentally sensitive Dee Estuary.

<u>Pollution incidents</u>
Reducing the number of pollution incidents as a result of blockages or other problems on our sewer and wastewater treatment works network has been a priority for us and last year we achieved the target set by the Board and cut the total number of incidents by 18% from 246 to 205. There were no "category 1" pollution incidents and 6 serious "category 2" incidents and we reported 47% of all incidents ourselves, just behind our target of 50% and well ahead of the figure of 37% in 2011.

We continue to work hard to reduce the number of pollution incidents caused by blockages on our now much larger sewer network following the transfer of private sewers. We have installed some 1,000 state-of-the-art "Cello" units (with a further 1,000 to be installed before 2015) which allow us to monitor flows in our sewer network; this data is then used by our "real time" modelling team to predict the performance of our sewer network in order to prevent pollution or flooding incidents. During the year we established another four CCTV crews - taking the total to eight – ensuring that we are not only better equipped to respond quickly to problems on the sewer network but can also gain a better understanding of the condition and performance of the network. We also have "river rangers" who walk and inspect our sewers located close to river courses and we have good relations with an increasing number of angling and canoe clubs who can help us by giving us early warning of any problems with our network.

<u>Coastal water quality</u>

Ensuring our wastewater treatment works and our sewer network safeguard our rivers and coastal waters from pollution is essential, not least because of the importance of our environment for the economy of Wales. Tourism accounts for some 13% of GDP and employment in Wales, and around a third of all day-trips in Wales go to the coast. Wales, with just 15% of the British coastline, secured 33 Blue Flag awards for the 2013 summer season, a third of the total awarded to all of the UK. This is down from the 43 Blue Flag awards for the 2012 season as a result of last summer's very wet weather and the resulting run-off from agricultural land and spills from our sewer network as well as the Revised Bathing Waters Directive which now sets much tighter water quality standards for achieving a Blue Flag award. Last year we provided "real time" spill warnings for visitors at three beaches in Pembrokeshire and for the 2013 season we are increasing this to 25 beaches. We are also trialling mobile phone apps and "real time" water quality monitoring technology with the aim of providing still better information on coastal water quality for visitors to beaches around the coast of Wales.

<u>Water resources</u>

Around 98% of the water we supply to our customers is abstracted from rivers in Wales, most of which are regulated by our reservoirs. Ensuring that no more than necessary is taken from these important rivers is important for their continued high ecological quality. The amount we abstract for public water supply has been falling steadily and is now some 25% lower than in the mid 1990s. However, the expected impact of climate change alongside the requirements of the Habitats Directive means that we must plan for possible reductions in the amount we abstract for public water supply during the driest years in future. We have published our Draft Water Resources Plan which not only sets out how we might meet these requirements to reduce the quantity of water we take from the environment but also indicates where we might be able to develop surplus water resources to support economic development in our region or for export to a neighbouring region. A key part of our plans to balance the supply of water from the environment and the demand for water from our customers is to continue to reduce leakage from our water supply network. We find and fix on average more than 100 bursts and leaks every day and last year we again achieved our leakage target; since the 1990s we have halved leakage on our water supply system.

<u>Energy and carbon efficiency</u>

Dŵr Cymru is one of the biggest energy users in Wales and our aim is to steadily reduce our net energy consumption and our carbon emissions through efficiencies and through generation of green energy from our network of assets. We currently generate from Advanced Digestion of sludge and other renewable sources around 8% of our energy needs and we remain on track to achieve our target of 15% from these sources by 2015. Last year we commissioned a new anaerobic digestion plant at our Five Fords wastewater treatment works at Wrexham which added 1,200kW to our renewable generation capacity. We also expanded our solar and hydro portfolio with six further installations while at the same time we continue to improve the energy efficiency of pumps and other equipment across our estate.

However, because of last year's wet weather – and in South Wales rainfall was double that of the previous two years – our wastewater treatment and pumping power costs were 11% higher than budget. Lower energy use elsewhere only partially offset this increase and for 2012/13 our total electricity use was 420GWh, 2% higher than in the previous year. The very wet weather also meant that energy generation from our advanced anaerobic digestion plants was 11% lower than in the previous year. Because use of electricity accounts for 85% of our carbon emissions these too were 2% higher than last year.

Independent Environment Advisory Panel
We have established our Independent Environment Advisory Panel which comprises over 20 organisations with an interest in our environment and Dŵr Cymru's role in protecting our rivers and coastal waters as well as more generally. The Panel met 4 times last year and has helped us to shape our science and research agenda as well as our priorities for investment in the years ahead. The Panel has also supported our catchment based studies which will help us to establish the most cost effective way of meeting the requirements of the Water Framework Directive.

Customer service

As the only water and sewerage company owned on behalf of its customers, we are determined to be one of the best performers in the utilities industry on day to day customer service. Last year we made excellent progress and independent research carried out each month shows customer satisfaction is consistently over 90%. This was confirmed by Ofwat's independent quarterly research which gave Dŵr Cymru a customer satisfaction score of 92% and ranked Dŵr Cymru second on the industry league table for this key measure.
The number of customer written complaints fell again last year to 3,652 which is a more than 70% reduction over the last three years; for the first time we received more written thank-you letters and compliments from our customers than complaints. The number of unwanted customer contacts – for example as a result of a customer chasing progress on a job – fell again for the fourth year in a row and was 75% lower last year than it was in 2009/10.

This sector leading performance is the result of a lot of hard work and a growing capability and the successful implementation of a host of initiatives and improvements alongside a customer service culture and purpose which puts our customers first. Each depot has a case manager whose job it is to ensure that customers are kept informed with the progress of the job we are doing for them. Customer service and other training means that our operational call centre staff are now better able to give high quality advice when customers call us. Last year we sent out more than 600,000 text messages to let customers know that we were dealing with the problem – like a burst water main - that was affecting their service and to keep them informed with our progress. We call back around 5,000 customers each month for whom we have carried out work to check that they are content with our service and that the job was completed satisfactorily; all customer calls to our contact centre are recorded to allow monitoring for quality of service. Our experienced front line staff have worked on refreshing a number of customer facing processes, putting themselves in the customer's shoes, and these improved "customer journeys" have then been rolled out across the business. We continue to improve our website and last year we added a new "post code driven" emergency and planned work section; our text messages include a link to the website which we keep updated.

Water supply interruptions
We have employed new technologies to limit the amount of time that customers might have their water supply interrupted because of necessary work on the network; this includes pipe-freezing and working under pressure so that repairs can be carried out without decommissioning the system. Keeping to a minimum the amount of time customers are without tap water because of a burst water main or other planned work on the network is an essential part of our service. Last year's performance was affected by a number of major trunk main bursts and the average number of minutes of lost supply for our customers in four of our five water distribution areas was around 39 minutes, up from around 23 minutes in 2011/12.

However, both these numbers exclude one of our five distribution areas where as part of a wider investigation into the activities of a currently suspended member of staff we uncovered some issues with our supply interruption data. Having carried out a full review of all 2,603 interruptions to supply in this one distribution area last year, we established that, despite very few customer calls at the time, there were some 80 unplanned interruptions where the loss of supply lasted longer than 12 hours, and as a consequence the customers affected by these long interruptions were entitled to compensation. We are writing to say sorry to each of the customers affected and are paying compensation in line with our Guaranteed Standards Scheme.

Dŵr Cymru Customer Services
Our commitment to delivering excellent customer service lay behind our decision to establish Dŵr Cymru Customer Services ("DCCS") in August last year, ending the previous outsourced arrangements. DCCS is a subsidiary company with its own board and employs 400 colleagues whose focus is billing, account queries, meter reading, effective debt management and support for our vulnerable customers. Last year we invested

£3 million to upgrade our debt collection system and we are now able to target affordability support more quickly and effectively as well as introducing a wider range of sanctions to reduce debt, including litigation through the courts when we need to.

For our business customers, DCCS provides a dedicated account management function so that every large customer has a named contact in the event of a problem or query. Last year the team launched a range of new services which now enable business customers to access "real time" data on their water usage; we also offer leak detection services and advice on efficient water use and how to reduce bills. Two independent surveys of our business customers last year showed 89% and 87% satisfaction with our service and value for money.

Around 30% of our household customers spend more than 3% of their disposable income on their water and sewerage bill; almost 15% of our customers spend more than 5% of their income on their bill. Through our range of assistance tariffs and other help we now help 52,000 of our least well off household customers to pay their water bill; we believe this is more than any other water company. We have also developed good relationships with Registered Social Landlords and Local Authorities in Wales and we now have 11 schemes in place which enable our customers to pay their water bill along with their rent. The DCCS team has also established a partnership with Community Housing Cymru and Moneyline Cymru, funding a money adviser based in Merthyr Tydfil.

Community, wider environment and education

Our estate of reservoirs and land holdings include some of the most attractive and important landscape in Wales. The sites that we actively manage for public recreation attract close to a million visitors each year. We have developed facilities for a range of activities including cycling, fishing, sailing, canoeing, and windsurfing and many sites have bird watching hides, picnic areas, walks and nature trails.

This year we have opened a cycling centre at our Llyn Brenig visitor centre on the Denbigh Moors. We have two other visitor centres at Llys y Fran, near Haverfordwest and the Elan Valley in mid Wales and we are building a fourth facility at our Llandegfedd Reservoir near Cardiff and Newport. To enhance the visitor experience we are developing "apps" for smart phones as part of the Visit Wales "digital tourism" initiative. Our team of rangers lead a variety of activities throughout the year - including archaeological expeditions, star-gazing evenings, fly-fishing courses, charity cycling events and sponsored walks, boat trips, and guided nature walks and wildlife tracking - which foster Dŵr Cymru's standing with our customers and the communities we serve.

We encourage conservation best practice across our landholdings and all our main reservoirs have biodiversity management plans. At Llyn Brenig we are planning to link two Sites of Special Scientific Interest with a corridor for wildlife, and we have a project to attract nesting Ospreys. In the Brecon Beacons we are encouraging less intensive grazing regimes and are re-landscaping the margins of water bodies to promote habitats and to improve water quality.

Supporting education continues to be one of our main areas of community support. During the last academic year nearly 27,000 young people passed through one of our four education centres or attended a session led by one of our teachers. Our education centres are staffed by full time seconded teachers and we use our indoor and outdoor facilities to teach primary school children about the importance of water and our environment.

Last July we announced that we would provide matched funding of £400,000 for not-for-profit organisations to help improve the quality of Welsh rivers, lakes and waterways and create a more vibrant and healthy environment for people and wildlife within their supply area. Projects supported by this initiative include "Love our Lake", where the communities of Nant Peris, Llanberis and Fachwen are helping to improve the water quality of Llyn Padarn which suffered an algal bloom in 2009 caused by discharges from our treatment works but also diffuse pollution in the catchment, the Monmouthshire Olway and Trothy Project, where farming families and community agents are working to reduce nutrient and fine sediment loadings in the River Wye catchment so as to improve habitats, and the Upper Tywi catchment restoration project which is researching and trialling lime dosing to restore pH balance of the river and reverse the effects of acid rain.

A great team working for Dŵr Cymru's customers

Everything we do and achieve depends on the talent and commitment of the people who work for Dŵr Cymru. We have a talented and committed team that can be relied upon to "go the extra mile" to ensure that the public service our customers rely on us for is at all times safe and reliable. We all understand the importance of what we do for public health as well as the risks that come with looking after what is a 24/7 and asset intensive industry. The fact that we are owned and managed on behalf of the three million people who rely on us day in day out for the most essential of public services is a key feature in our culture and at the heart of what we stand for.

<u>Health and safety</u>
The health, safety and wellbeing of everyone who works for our Company will always be a priority for us and last year our safety performance continued to improve. The number of reportable injuries fell to 24 (from 29 in the previous year) while the number of working days lost due to injury was 60% lower. This improving trend was achieved notwithstanding the marked increase in workload last year, with the average number of employees and contractors covered by our safety monitoring up by 16%, with a 25% increase in number of hours worked.

We carried out our second occupational health surveillance programme which benefited nearly 1,000 colleagues across the business and allowed us to identify and act on potential health problems early; the number of days lost per person due to illness was lower last year. We continue to stress the importance of "near miss" reporting as a "lead indicator" and that improved again last year; we captured over 13,000 potentially "unsafe acts and conditions" last year which we used as learning opportunities to improve and reinforce safety awareness.

We continue to develop and deliver our "Journey to Zero" strategy which aims to ensure that good occupational health and safety practice is embedded in all that we do. We have implemented a host of initiatives in support of this strategy, including for instance Pristine Condition manual handling training, which has benefited nearly 2,000 colleagues, and a behavioural safety training programme. Our recent staff engagement survey (see below) confirmed that colleagues do recognise the importance of safety with 95% agreeing with the statement "I know what is required of me with regards to health and safety" and 91% agreeing with the statement "Health and safety is taken seriously at Dŵr Cymru"; these were the two highest scores in the survey.

<u>Staff engagement survey</u>
The response rate to our second staff engagement survey was 77% and the overall "staff engagement index score" was 76%; this compares with the sector benchmark of 70% and a score of 69% in the first staff survey which we carried out in 2011 following the ending of the operational outsourcing contracts in 2010.

86% of respondents agreed with the statement "I believe in Dŵr Cymru and what it stands for" while 80% agreed with the statement "Working at Dŵr Cymru makes me do the best work I can". This welcome improvement in feedback from colleagues follows considerable effort to build staff engagement –including better communication with more talk-back sessions, road-shows and the launch of "Dŵr" our new in-house staff newspaper - and tackling complaints about poor facilities at our depots with our "You said we did" initiative. We have also successfully implemented a new "progression in role" pay structure alongside a new focus on performance management. We continue to offer opportunities for development at every level, including Cranfield Business School for our future leaders, our City and Guilds accredited Competent Operator programme and our Institute of Customer Service accredited "How to Wow" programme for customer facing staff.

We were delighted to be the first large employer to be awarded the Welsh Government's Employer Pledge Award for our Essential Skills programme which we developed in partnership with the TUC. The enhanced numeracy, literacy and IT skills that more than 150 colleagues now have will mean we can make full use of the new technology we are using across our business to improve the service we give our customers.

We are building a strong succession pipeline with over 70 apprentices, graduates, trainee inspectors and chartered engineers on one of our programmes. We enjoy a high reputation as an employer which ensures that we can attract and retain the best. The staff engagement survey also told us that 83% say they are "proud to work for Dŵr Cymru" while 82% agree that "Dŵr Cymru puts customers first". These are encouraging findings that support our view that we are building a strong customer focused culture in Dŵr Cymru.

Looking after our assets

Dŵr Cymru employs a network of assets with a replacement value of some £30 billion. Looking after and maintaining this very large infrastructure that we rely upon in order to serve our customers, now and in the future, is a fundamental responsibility for us.

The Environment Agency in England recently reported that one in every five days saw flooding in 2012 but one in every four days were in drought. The record wet weather in particular had a significant impact on our operations. And while the total number of mains bursts and sewer collapses was lower last year, the very wet weather contributed to a higher number of major breakdowns on strategic assets, all of which were repaired successfully and without having any significant impact on our customers; we judge that nearly all of these breakdowns were a result of unstable ground conditions due to the wet weather. Our newly strengthened in-house engineering team managed these repairs successfully, all of which involved 24 hour working and often in very difficult weather conditions. Despite this higher number of major asset breakdowns last year, we are able to report "stable" asset serviceability for both our water and our sewerage activities.

We also continue to build our IT capability to support front line operations, capital delivery and customer service and our cost efficiency. Last year we implemented new systems to support our new laboratories at Bretton and Newport, a new automated on-line service for our developers customers, a planned maintenance scheduling system for below ground sewerage assets and we launched "revITalise", a project to refresh our desktop IT environment. An ambitious project to replace our 25 year old billing system is underway and progressing well which will give Dŵr Cymru a proven and state-of-the-art platform upon which to develop further customer service improvements. So that we can control our operational systems more closely and react more quickly to incidents on our network, we have also invested in renewing and upgrading our telemetry and SCADA asset control systems, including improvements to security.

Looking ahead

In the 12 years since Glas Cymru secured the ownership of Dŵr Cymru we have invested £4 billion – or around £2,500 per household – while striving to keep our customer bills affordable.

This record level of investment has maintained and improved Dŵr Cymru's £30 billion infrastructure of reservoirs, pipes, drinking water production facilities, sewers and wastewater treatment plants that we employ to provide our customers with what is an essential public service – high quality drinking water at the tap and the safe collection and cleansing of wastewater so that we protect our rivers and coastal waters from pollution. The people who work for Dŵr Cymru are proud that we are owned on behalf of our customers and the communities we serve - and that all profits go back into the business to maintain and improve services and keep bills down. The enthusiasm and dedication that follows from this pride is the key to what we achieved for our customers last year – a best ever performance overall on the measures that matter for our customers and for the environment we look after and protect from pollution on their behalf.

Our aim is to demonstrate that not-for-profit ownership of the water industry can deliver both an affordable and a high quality service to the three million people who rely on us every day for what is the most essential of public services. Being trusted by our customers - because of our purpose and because of the quality of service we deliver - is at the heart of our customer ownership model.

It was encouraging to see from recent independent research that Dŵr Cymru enjoys a very high standing with stakeholders in Wales. Being not-for-profit is key to this high standing, but is not enough by itself. What matters much more is the quality and reliability of service that customers get from Dŵr Cymru. Not-for-profit is no excuse for poor service. Indeed, we believe that our different business model must be a spur to excellent service and the best possible efficiency.

In the twelve years since Glas Cymru took over the ownership of Dŵr Cymru, "Customer Equity" (that is, regulatory capital value less total net debt) has risen ten-fold to stand at £1.6 billion as at 31 March 2013. Prior to 2010 Dŵr Cymru paid "customer dividends" totalling more than £150 million and since 2010 the Company is returning value to customers of some £140 million in funding the additional costs that came with the transfer of private sewers and other accelerated investment as well as funding our unique range of assistance tariffs which give help to our less well off customers who are struggling to make ends meet.

We have launched our “Your Company, Your Say” consultation with our customers to explain and test our future plans and priorities for the years ahead in advance of the next regulatory price review in 2014. This is all about securing a consensus on what should be the right outcomes, the right balance between continuing investment and keeping bills affordable, tackling the issues that really matter for our customers, and agreeing on what should be addressed sooner and what will have to wait until another time.

Our high standing with our customers and with other stakeholders – and the fact that our only interest is to deliver the best possible outcomes for today’s customers and future generations – means that we can have an open and honest debate about the future of the water industry in the region served by Dŵr Cymru. We will inform that debate and listen and reflect what we are told in what we put forward in our plans and priorities for the years ahead.

Nigel Annett, Managing Director
13 June 2013

Finance Director's Report

Glas Cymru Cyfyngedig is the holding company for the Glas Cymru Group and parent of the operational company Dŵr Cymru Cyfyngedig. Dŵr Cymru has delivered a strong financial performance during the year to 31 March 2013; gearing has improved and sector-leading credit ratings have been maintained in spite of continued economic uncertainty. Achievement of Ofwat's Final Determination targets for the regulatory period to March 2015 is a big challenge, in response to which we are continuing to reorganise our operations to produce operational efficiencies.

Revenue
Dŵr Cymru's turnover in the year to 31 March 2013 was £716 million (2012: £695 million), primarily reflecting the price increase of 4.8%, which was the lowest in the sector. Additional revenue from new customers has been offset by household customers switching to metered charging. The number of customers signed up to our sector-leading range of customer assistance tariffs has continued to increase. As at 31 March 2013 some 52,000 were benefiting from one of these tariffs or our Customer Assistance Fund - which support those who have difficulty paying their bills - at a cost to the Company of £4 million.

Operating costs
Dŵr Cymru incurred total operational costs (excluding IRE and depreciation) of £295 million (2012: £273 million); a number of specific costs pressures (power costs, wastewater compliance costs, private sewers expenditure and pension charges) as well as the impact of general inflation have been partially offset by efficiency savings.

All water and sewerage companies need to draw on significant energy resources, particularly for water treatment and pumping processes, and Welsh Water – with its network spread across Wales's undulating topography – is no exception. Power costs during 2012-13 rose significantly to £39 million (2012: £34 million) as a consequence of price increases, the impact of wet weather on sewage pumping and a reduction in income from renewable energy generation. There remains significant uncertainty over future energy costs, and we have forward purchased around 70% of the estimated power requirements of the business over the remainder of the regulatory period to 31 March 2015.

Customer debt recovery remained a high priority for Dŵr Cymru. In a dif ficult economic environment, in which water companies have no sanction to disconnect supplies to non-paying domestic customers, cash collection has continued to be challenging. The bad debt charge for the year of £27 million (2012: £27 million) represents 3.8% of annual turnover (2012: 3.9%) and reflects a review of historical collection rates.

Infrastructure renewals expenditure
Expenditure on infrastructure renewals (IRE) is in line broadly with the prior year at £79 million, reflecting the continued focus on maintenance in year three of the company's AMP5 capital investment programme (2010-2015). Included in the IRE are leakage activity costs of £4 million directed towards meeting our leakage target set by Ofwat. Private sewer-related expenditure amounted to a further £8 million.

Financing costs
Net interest payable (excluding loss on derivatives) of £134 million was £51 million lower than last year. This is predominantly the effect of a £20 million accounting profit recognised during the year on termination of finance leases and a £29 million decrease in indexation charges on our index-linked bond and finance lease inflation swaps. The average cost of debt during the period was 5.0% (2012: 6.9%).

Dŵr Cymru has a number of derivative swap contracts which fix the interest cost or inflation-link the cost of debt and, while these are effective commercial hedges, they do not qualify for hedge accounting under IAS 39. Changes in market values can create volatility in the income statement and fair value losses in 2012-13 amounted to £61 million (2012: losses of £138 million). There is, however, no impact on cash flows: the company intends to hold these swaps to the maturity of the underlying debt and, over the life of the swaps, such losses will revert to zero.

Loss before taxation
The consolidated income statement reports a loss before taxation of £12 million (2012: loss of £131 million). Excluding the fair value movements discussed above and the accounting profit on lease termination, the

underlying profit before tax was £29 million (2012: £7 million). This underlying profit was made after funding a real-terms reduction in customer bills and a high level of investment in network maintenance during the year.

Taxation

The taxation credit for the year is £13 million, compared to a 'normalised' taxation credit of £3 million (based on the loss before tax of £12 million at the corporation tax rate in force for the year of 24%). The principal variances relate to a £14 million deferred tax credit due to the corporation tax rate reduction from 24% to 23% in future years.

The group has tax trading losses carried forward of approximately £400 million which the group believes should be sufficient to eliminate tax on trading profits in the remainder of the regulatory period ended 31 March 2015, subject to changes in tax law.

Pension funding

The statement of comprehensive income reports pension scheme actuarial gains of £3 million and a balance sheet liability of £33 million. However, this valuation is on an IAS 19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme, as at 31 March 2011, showed that it was 98% funded with a projected deficit of £5 million.

The sensitivity of the IAS 19 valuation to small changes in assumptions has increased considerably in recent years due to the transfer of employees' past service benefits into the scheme following the in-sourcing of the major operational contracts in 2010-11 and the in-sourcing of the income and billing contract in 2012-13. If the discount rate were to change by 0.1%, the balance sheet obligation as at 31 March 2013 would increase or reduce by £8 million (2012: £6 million).

Liquidity and financial reserves

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

On Glas Cymru's acquisition of Welsh Water in May 2001, gearing (net debt/RCV) stood at 93%. Since then, the financial position has improved steadily, such that gearing had fallen to 63% by 31 March 2013 (2012: 65%) and 'financial reserves' (RCV less net debt) were £1.6 billion.

As at 31 March 2013 the Company had available total liquidity of £372 million, including cash balances of £157 million, with funding in place for the remainder of the current regulatory period which runs to 2015.

Credit ratings and interest rate management

Dŵr Cymru has the strongest credit ratings in the water sector, reflecting the Company's high level of creditworthiness. The ratings of the Company's Class A and B debt at 31 March 2013 were A/A3/A from Standard & Poor's (S&P), Moody's and Fitch Ratings.

The Board has always adopted prudent financial policies, predominantly covering the fixing of interest rates and the investment of cash balances. Dŵr Cymru's policy is to minimise its exposure to movements in market rates, with a minimum of 85% of its liabilities being fixed rate, index-linked to the UK RPI or matched by cash balances. The Board considers that linking debt to UK RPI inflation is particularly appropriate, as Dŵr Cymru's revenues and regulatory capital value are also linked to RPI through the regulatory system operated by Ofwat. Implementation of the policies is delegated to a small team of specialists which operates to ensure that Dŵr Cymru meets the requirements of its licence, and therefore undertakes no speculative trading.

As at 31 March 2013, approximately 65% of gross debt was index-linked via bonds and derivatives (2012: 65%), with the remainder fixed. 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.

Capital investment

Dŵr Cymru's strong financial position has been built up over the last 12 years, and provides a stable base from which it can respond positively to the challenges of the economic recession and drive forward its continuing large capital programme.

Dŵr Cymru works with an alliance of capital investment partners to deliver the investment programme at the best value for money for customers. Welsh Water is planning to invest some £1.5 billion over the current AMP period which runs from 2010 to 2015, bringing sustained improvements to customer service, drinking water quality and the environment. Total capital expenditure by Welsh Water during the year (including IRE) was £338 million, bringing total investment during the AMP period to date to over £840 million. The group plans to invest a further £650 million over the course of the next two years, one of our largest ever investment programmes.

Private Sewers

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000km of private sewers and drains has significantly increased the size of the network. There remains limited information available to judge the condition of these sewers – and any attributable value – but they are typically expected to be in poor condition and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the regulatory capital value of the business, a value of £nil has been attributed to these assets in the balance sheet as at 31 March 2013. During the year, Dŵr Cymru incurred associated costs of £14 million (2012: £7 million), of which £8 million formed part of the capital investment programme (including IRE) while the remaining £6 million were classified as operating expenditure.

Regulatory arrangements have yet to be finalised with regard to the recovery of additional expenditure associated with this transfer. The treatment is expected to be via existing regulatory methods, at the 2014 price review or an earlier interim determination of the price control. As far as possible, it is expected that the performance of these new assets will be ring-fenced so as not to distort the assessment of the underlying performance of the business.

Looking ahead

A key part of our strategy is to maintain the affordability of customer bills in the long term while at the same time maintaining the serviceability of the company's £31 billion network of water and wastewater assets. The company remains prudently financed with gearing at 63% and good liquidity in these uncertain times. The Board considers that the current level of gearing will enable the company to efficiently fund the AMP5 investment programme to 2015.

Over the five years to 2015, Ofwat has set us an efficiency target of some 20 per cent in our day to day running costs. In addition to a headcount reduction, we will do this by exploiting our recent large investment in new technology, by eliminating the profit element, overhead and contract management costs of many of the previously outsourced services, and by investing in 'green energy' and processes to reduce power costs. This involves considerable investment by the company and forms part of our planned £1.5 billion investment programme to improve services.

In the face of these major challenges, our priority will remain the essential task of guaranteeing safe and reliable services for all our customers as well as safeguarding the environment, at an affordable cost.

Chris Jones, Finance Director
13 June 2013

Managing Risk

The Board considers the principal risks and uncertainties affecting the business activities of the company to include the following:

Service Delivery and Asset Maintenance

- Maintaining and upgrading our service to customers as necessary, and maintaining levels of investment in our assets for future customers and to meet the challenges such as population growth, climate change and ageing asset infrastructure.
- Protecting against asset failure and the risks that this poses both to service delivery and to third party assets and people.
- Ensuring continued service delivery despite apparent greater variability in weather conditions. This past year saw the third wettest year on record and this impacted our services. In particular, heavy rainfall contributed to an unprecedented number of major bursts to trunk mains and sewers.

Legal and Regulatory Environment

- Influencing and responding to regulatory and legal change in the sector, in particular around the proposed Water Bill which is expected to be published in Autumn 2013, in order to ensure we can deliver our future plans for the business and maintain service delivery for our customers.
- Achieving the targets set by our regulators for the period 2010-2015 and securing the support of Ofwat for our business plan for the next investment period, 2015 – 2021.
- Ensuring ongoing compliance with regulatory reporting requirements and that our processes for ensuring compliance continue to be fit for purpose.
- The hearing of Albion Water's damages claim under the Competition Act 1998 in respect of its request for common carriage terms in 2000 came before the Competition Appeal Tribunal in October 2012; judgment was handed down in March 2013. Albion was awarded £1.89million plus interest in damages but the Court found that its claim for exemplary damages should not succeed. Costs issues in relation to the dispute are still outstanding and a further determination from Ofwat is currently awaited as to the correct price to be paid by Albion Water for the current bulk supply of water by Dŵr Cymru Welsh Water.

People

- Maintaining and improving our high levels of employee engagement (as measured in this year's employee engagement survey).
- Continuing to support our employees to develop their skills and knowledge to be able to help us to address the future challenges facing the sector and to enable us to fulfil our service delivery obligations to customers and to meet our regulatory requirements.
- Dealing with the challenges raised by the age profile of our employees, which means that a significant number will be retiring from the business over the next ten year period.

Financial Risks

- Ensuring cash collection despite the continued impact of the recession on our customers, which has made cash collection increasingly more difficult and has meant an increase in the support we provide to customers - over 14% of our customers (52,000) now benefit from one of Dŵr Cymru Welsh Water's social tariffs.
- Maintaining access to capital markets during a period of regulatory uncertainty, as rating agencies have reported that structural changes could affect the sector's ratings and its cost of finance.

Independent auditors' report to the members of Glas Cymru Cyfyngedig

We have audited the groups and parent company financial statements (the ''financial statements'') of Glas Cymru Cyfyngedig for the year ended 31 March 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Reserves, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page [], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2013 and of the group's profit and group and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Other matters

The directors have requested, (because the company applies Listing Rules 9.8.6R 5 and 6 of the Financial Services Authority as if it were a listed company), that we review the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review by the Listing Rules of the Financial Services Authority. We have nothing to report in respect of this review.

At the request of the directors, we have also audited the Directors' Remuneration Report that is described as having been audited. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Katharine Finn (Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
13 June 2013

Consolidated Income Statement for the year ended 31 March 2013

Continuing activities	Note	£m	**2013** £m	£m	2012 £m
Revenue	2		**716.4**		695.0
Operating costs:					
- Operational expenditure	3		**(295.0)**		(272.5)
- Infrastructure renewals expenditure	3		**(79.4)**		(81.1)
- Depreciation and amortisation	3		**(158.7)**		(150.0)
			(533.1)		(503.6)
Operating profit			**183.3**		191.4
Financing costs:					
- Interest payable and similar charges	4a	**(141.3)**		(189.7)	
- Interest receivable and similar income	4a	**7.0**		4.9	
- Fair value losses on derivative financial instruments	4b	**(61.2)**		(137.6)	
			(195.5)		(322.4)
Loss before taxation	3		**(12.2)**		(131.0)
Taxation	5		**13.8**		27.0
Profit/(loss) for the year			**1.6**		(104.0)

Underlying profit for the year
(Profit before taxation, fair value adjustments and accounting profit on lease termination)

	2013 £m	2012 £m
Loss before taxation per Income Statement	**(12.2)**	(131.0)
Adjustment for:		
- Fair value losses on derivative financial statements (see note 4b)	**61.2**	137.6
- Accounting profit on lease termination	**(20.1)**	-
Underlying profit for the year	**28.9**	6.6

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The profit of the parent company for the year was nil (2012: nil).

Consolidated Statement of Comprehensive Income for the year ended 31 March 2013

	Note	**2013 £m**	2012 £m
Profit/(loss) for the year		**1.6**	(104.0)
Actuarial gain/(loss) recognised in the pension scheme	20	**2.3**	(25.8)
Movement on deferred tax asset relating to pension scheme	5	**(0.9)**	6.2
Total comprehensive income/(expense) for the year		**3.0**	(123.6)

Consolidated Statement of Changes in Reserves/(Deficit) for the year ended 31 March 2013

	2013 £m	2012 £m
(Deficit)/reserves at 1 April	**(77.4)**	46.2
Total comprehensive income/(expense) for the year	**3.0**	(123.6)
Deficit at 31 March	**(74.4)**	(77.4)

There were no changes in reserves of the parent company during the year (2012: none).

Consolidated Balance Sheet as at 31 March 2013

	Note	**2013**	2012
		£m	£m
Assets			
Non-current assets			
Property, plant and equipment	7	**3,336.1**	3,231.9
Intangible assets	8	**66.1**	66.6
Investments	9	**-**	-
		3,402.2	3,298.5
Current assets			
Trade and other receivables	10	**526.1**	511.0
Inventory		**1.6**	0.9
Financial assets:			
- derivative financial instruments	14	**4.4**	4.4
Cash and cash equivalents	11	**157.4**	300.5
		689.5	816.8
Liabilities			
Current liabilities			
Trade and other payables	12	**(542.6)**	(534.2)
Financial liabilities:			
- borrowings	13	**(79.7)**	(77.5)
- derivative financial instruments	14	**(37.9)**	(25.0)
Provisions	16	**(10.5)**	(12.5)
		(670.7)	(649.2)
Net current assets		**18.8**	167.6
Non-current liabilities			
Trade and other payables	12	**(67.7)**	(57.3)
Financial liabilities:			
- borrowings	13	**(2,815.2)**	(2,912.6)
- derivative financial instruments	14	**(325.7)**	(277.4)
Retirement benefit obligations	20	**(32.8)**	(31.9)
Provisions	16	**(10.1)**	(7.9)
		(3,251.5)	(3,287.1)
Net assets before deferred tax		**169.5**	179.0
Deferred tax - net	6	**(243.9)**	(256.4)
Net liabilities		**(74.4)**	(77.4)
Deficit		**(74.4)**	(77.4)

The financial statements on pages 17 to 51 were approved by the Board of directors on 13 June 2013 and were signed on its behalf by:

N C Annett
Managing Director
C A Jones
Finance Director

Parent Company Balance Sheet as at 31 March 2013

	Note	**2013**	2012
		£m	£m
Assets			
Non-current assets			
Investment in subsidiaries	9b	**-**	-
Trade and other receivables	10b	**3.4**	3.4
		3.4	3.4
Current assets			
Cash and cash equivalents	11	**0.1**	0.1
		0.1	0.1
Liabilities			
Current liabilities			
Trade and other payables	12	**(3.5)**	(3.5)
		(3.5)	(3.5)
Net assets		**-**	-
Reserves			
Retained earnings		**-**	-
Total reserves		**-**	-

The financial statements on pages 17 to 51 were approved by the Board of directors on 13 June 2013 and were signed on its behalf by:

N C Annett
Managing Director

C A Jones
Finance Director

Consolidated Cash Flow Statement for the year ended 31 March 2013

	Note	**2013**	2012
		£m	£m
Cash flows from operating activities			
Cash generated from operations	17a	**326.0**	337.5
Interest received		**7.3**	4.6
Interest paid	17b	**(124.5)**	(98.0)
Tax received		**4.2**	2.5
Net cash inflow from operating activities		**213.0**	246.6
Cash flows from investing activities			
Purchase of property, plant and equipment		**(252.4)**	(185.5)
Grants and contributions received		**13.7**	9.5
Net cash outflow from investing activities		**(238.7)**	(176.0)
Net cash (outflow)/inflow before financing activities		**(25.7)**	70.6
Cash flows from financing activities			
Long term loans received		**-**	25.0
Bond issue proceeds		**-**	128.1
Term loan repayments		**(13.5)**	(13.5)
Capital element of finance lease payments		**(103.6)**	(7.7)
Other loan repayments		**(0.3)**	(0.3)
Net cash (outflow)/inflow from financing activities		**(117.4)**	131.6
(Decrease)/increase in net cash	18	**(143.1)**	202.2
Net cash at 1 April		**300.5**	98.3
Net cash at 31 March	11	**157.4**	300.5

The parent company had no cash flows during the year (2012: none).

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2013

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

Basis of Preparation

The consolidated financial statements of Glas Cymru Cyfyngedig have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Companies Act 2006 that applies to companies reporting under IFRS and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

In the year, there were no changes to the reporting framework which impact on Glas Cymru's financial statements for the year ended 31 March 2013.

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

IFRS 7	Financial Instruments: Disclosures (amendment)
IFRS 9	Financial Instruments: Classification and Measurement
IFRS 10	Consolidated Financial Statements
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements (amendment)
IAS 16	Property, Plant and Equipment (amendment)
IAS 19	Employee Benefits (amendment)
IAS 32	Financial Instruments: Presentation (amendment)

The impact of these Standards and Interpretations is being assessed, but the directors anticipate that their adoption in future periods will have no material impact on the financial statements of the group.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiaries. The results of companies and businesses acquired during the year are dealt with in the consolidated financial statements from the date of acquisition. Intra-group transactions and profits are eliminated on consolidation.

Revenue recognition

Revenue represents the income receivable in the ordinary course of business for services provided, excluding value added tax. Where services have been provided but for which no invoice has been raised at the year-end an estimate of the value is included in revenue (see the 'Critical accounting estimates' section for further details). Revenue recognised reflects the value of services provided to customers in the year. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the steering committee that makes strategic decisions.

Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs and borrowing costs (the latter in respect of capital projects commenced after 1 April 2009, in accordance with IAS 23).

Property, plant and equipment comprise:

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

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

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

1) Infrastructure assets

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

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is treated as additions, 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.

2) Other assets

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

Freehold buildings	60 years
Operational structures	5 – 80 years
Fixed plant	8 – 40 years
Vehicles, mobile plant, equipment and computer hardware and software	3 – 16 years

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

Intangible assets

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

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

Leased assets

Where assets are financed by leasing arrangements, which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are capitalised and included in ‘property, plant and equipment’ with the corresponding liability to the lessor included within ‘financial liabilities – borrowings’. Leasing payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor with the finance charge being recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

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

Grants and customer contributions

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

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

Capital expenditure programme incentive payments

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

Trade receivables

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

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible into known 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, less any overdrafts.

Pension costs

1) <u>Defined benefit scheme</u>

A majority of the group's employees belongs to the group's defined benefit pension scheme, which is funded by both employer's and employees' contributions. Actuarial valuations of the scheme are carried out at intervals of not more than three years. Contribution rates are based on the advice of a professionally qualified actuary.

The net asset or liability recognised in the balance sheet represents the present value of the defined benefit obligations less the fair value of the plan's assets.

The group's defined benefit scheme service cost, being the increase in the present value of the liabilities expected to arise from employee service in the period, is included in operating costs. The expected return on scheme assets and interest on scheme liabilities are included in financing costs in the income statement. Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income.

2) <u>Defined contribution scheme</u>

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

Financial liabilities

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

Trade payables are obligations to pay for goods/services acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Derivative instruments utilised by the group are interest rate and inflation swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Derivatives are recognised initially and subsequently re-measured at fair value (based on market price data from relevant counterparties). During the year to 31 March 2013, none of the group's derivatives qualified for hedge accounting under IAS 39 (2012: 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 assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions

Provisions for restructuring costs, dilapidations and uninsured losses are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been estimated reliably. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the group receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligiation may be small.

Exceptional items

Exceptional items are those significant items which are disclosed separately by virtue of their size and/or nature to enable a full understanding of the group's financial performance.

Financing risk management objectives and policies

Treasury activities are managed within a formal set of treasury policies and objectives, which are reviewed regularly and approved by the Board. The policy specifically prohibits 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 'Security Trustee'). The risk is mitigated further by limiting exposure to any one counterparty. The group uses financial instruments to raise finance and manage operational risk; these instruments principally include listed bonds, finance leases, bank loan facilities and derivatives.

Credit risk

The group has a prudent policy for investing cash and short term bank deposits, set by the bond documentation within the Common Terms Agreement. Deposits of up to one year can be placed with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. Deposits of over one year should be placed with counterparties that have a minimum rating of AA-/Aa3/AA-.

In practice, in the current economic environment the group has adopted a more prudent approach to cash management and deposits are placed for a maximum of three months with banks subject to minimum short-term rating criteria of A1/P1/F1. Bond and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. The maximum cash investment with a single counterparty was £60m (2012: £30m).

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 therefore may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £2,895m as at 31 March 2013 (2012: £2,990m) none related to floating rate debt (2012: none). The group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2013, 100% (2012: 100%) of the group's gross debt was at fixed or index-linked ('RPI') rates of interest after taking into account interest rate and RPI swaps. The 'hedges' established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £359m in the balance sheet at 31 March 2013 (2012: £298m) but, assuming that the swaps are held to maturity, this will ultimately reduce to nil.

Power price hedges

The company enters into contracts which fix the price of a proportion of future power purchases in order to reduce the impact of power price variances. The company has forward-purchased around 70% of the estimated power requirement of the business over the remainder of the regulatory period to 31 March 2015. These contracts neither qualify as financial instruments under IAS 39 nor as onerous contracts under IAS 37 and, consequently, are not included in the financial statements until the contracts are effective.

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The group's policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,895m (2012: £2,990m) can fall due in any 24 month period.

Liquidity risk

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

Under the Common Terms Agreement which governs obligations to bond holders and other financial creditors, the group is required to have cash available to fund operations for 12 months. As at 31 March 2013, the group had committed undrawn borrowing facilities of £215m (2012: £215m) and cash and cash equivalents (excluding debt service payments account) of £98m (2012: £227m).

The group has revolving credit facilities totalling £140m with a group of six banks. £50m of these facilities remain avilable until May 2016, with the balance of £90m until May 2017. There is also a £10m overdraft facility (2012: £10m).

As at 31 March 2013 there was also a special liquidity facility of £135m (2012: £135m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cashflow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants. The facility is renewable on an annual basis.

Capital risk management

The group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the group operates, the group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the group's borrowing covenants) as a proportion of its Regulatory Capital Value (RCV) as linked to movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2013 gearing was 63%.

In respect of the risks detailed above, further quantitative disclosures are provided in note 15.

Critical accounting estimates

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

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability of a failure to recover amounts when they fall into arrears. The probability of failing to recover is determined by past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 1%, the provision for impairment would increase or decrease by £0.6 million (2012: £0.5 million).

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2013 would increase or reduce by £8.0 million (2012: £6.1 million).

Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2013 was £65.9 million (2012: £63.6 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.7 million (2012: £0.6 million).

2. Segmental information

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

3. Loss before taxation

The following items have been included in arriving at the loss before taxation:

	Group	
	2013	2012
	£m	£m
Operating charges		
- Power	**38.8**	34.4
- Chemicals	**8.4**	8.8
- Materials and equipment	**2.8**	3.0
- Vehicles and plant	**9.8**	8.4
- Office expenses	**6.1**	3.9
- Property costs	**4.1**	3.9
- Insurance	**7.2**	4.4
- Sewerage contractors	**2.8**	2.0
- Water costs	**4.3**	5.7
- Customer services contract	**5.7**	20.1
- Laboratories and analytical services	**3.2**	5.6
- Collection commissions	**3.9**	4.1
- IT contracts	**20.4**	18.3
- Bought-in services and other costs	**30.3**	21.1
	147.8	143.7
Employee costs (note 19)	**101.5**	79.5
Staff costs capitalised	**(27.3)**	(21.4)
	74.2	58.1
Research and development expenditure	**0.5**	0.5
Trade receivables impairment	**27.4**	27.0
Rates	**29.3**	27.9
Environment Agency charges	**15.6**	15.1
Fees payable to auditors	**0.2**	0.2
Total operational expenditure	**295.0**	272.5
Infrastructure renewals expenditure	**79.4**	81.1
Depreciation and amortisation		
- Owned assets	**112.0**	104.8
- Under finance leases	**33.9**	33.9
- Amortisation of intangible assets	**13.0**	11.4
- Profit on disposal of property, plant and equipment	**(0.2)**	(0.1)
	158.7	150.0
	533.1	503.6

The customer services contract with Veolia Water Services was terminated during the year and, from 1 August 2012, provided by a group company, Dŵr Cymru Customer Services Ltd (DCCS). The operational expenditure of DCCS is consolidated within the relevant cost categories above and not shown as customer services contract expenditure.

Services provided by the group's auditors

During the year, the group obtained the following services from auditors:

	Group	
	2013	2012
Audit fees	**£000**	£000
Statutory audit of parent company and consolidated financial statements	**12**	11
Statutory audit of subsidiary companies	**87**	77
Total statutory audit fees	**99**	88
Audit-related fees		
Review of interim financial statements	**23**	22
Regulatory audit services pursuant to legislation	**41**	39
Investor report reviews	**8**	8
Bond prospectus update and bond issue	**-**	25
Total audit and audit-related fees	**171**	182
Other services		
Tax advisory services	**-**	14
Other	**24**	-
Total other services	**24**	14
Total cost of services provided by the group's auditors	**195**	196

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

In addition to the above services, PricewaterhouseCoopers LLP acted as auditors to the DCWW Pension Scheme. The appointment of auditors to the pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The fees paid in respect of audit services to the pension scheme during the year were £13,000 (2012: £13,000).

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

4. Financing costs

a) Net interest before fair value losses on derivative financial instruments

	Group	
	2013	2012
	£m	£m
Interest payable on bonds	**(85.1)**	(83.1)
Indexation on index-linked bonds	**(38.9)**	(52.1)
Interest payable on finance leases (including swaps to RPI)	**(28.1)**	(45.1)
Other loan interest	**(12.1)**	(12.1)
Other interest payable and finance costs	**(2.2)**	(3.9)
Net interest charge on pension scheme liabilities	**(1.5)**	(0.1)
Accounting profit on termination of lease	**20.1**	-
Capitalisation of borrowing costs under IAS 23 (2013 4.9%;2012: 6.8%)	**6.5**	6.7
	(141.3)	(189.7)
Interest receivable	**7.0**	4.9
Net interest payable before fair value adjustments	**(134.3)**	(184.8)

b) Fair value losses on derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. Consequently, the group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 14 in respect of derivative financial instruments held on the balance sheet.)

	Group	
	2013	2012
	£m	£m
Fair value losses on interest rate swaps	**(12.2)**	(35.3)
Fair value losses on index-linked swaps	**(49.0)**	(102.3)
Total fair value losses on derivative financial instruments	**(61.2)**	(137.6)

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

5. Taxation

Analysis of credit in the year

	Group	
	2013	2012
	£m	£m
Current tax		
- Current period	**-**	1.4
- Adjustment in respect of prior years	**0.4**	2.5
	0.4	3.8
Deferred tax		
- Origination and reversal of timing differences	**2.4**	35.4
- Adjustment in respect of prior year	**(0.6)**	(30.3)
- Effect of tax rate change	**10.7**	24.3
Total deferred tax (note 6)	**12.5**	29.4
Taxation credit	**12.9**	33.2
Analysed as:		
Credit to Income Statement	**13.8**	27.0
Charge to Statement of Comprehensive Income	**(0.9)**	6.2
	12.9	33.2

Tax trading losses carried forward as at 31 March 2013 are circa £400m (2012: circa £400m).

The effective rate of tax for the year is lower (2012: lower) than the standard rate of corporation tax in the UK (2013: 24%, 2012: 26%). The differences are explained below:

	Group	
	2013	2012
	£m	£m
Loss before tax	**(12.2)**	(131.0)
Loss before tax multiplied by the corporation tax rate in the UK of 24% (2012: 26%)	**(2.9)**	(34.1)
Effect of:		
- Adjustments in respect of prior years	**0.2**	27.9
- Other permanent differences	**(0.2)**	1.1
- Effect of tax rate change	**(10.9)**	(21.9)
- Movement on deferred tax asset relating to pension scheme	**0.9**	(6.2)
Total taxation credit	**(12.9)**	(33.2)

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2012: 24%).

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

	Group	
	2013	2012
	£m	£m
At 1 April	**256.4**	285.8
Credit to Income Statement	**(13.4)**	(23.2)
Charge to Statement of Comprehensive Income	**0.9**	(6.2)
At 31 March	**243.9**	256.4

	Group	
	2013	2012
	£m	£m
Effect of:		
- Tax allowances in excess of depreciation	**441.7**	450.3
- Capital gains rolled over	**3.7**	3.8
	445.4	454.1
- Deferred tax on tax losses carried forward	**(109.3)**	(114.5)
- Deferred tax on losses on derivative financial instruments	**(82.9)**	(71.9)
- Pensions	**(7.4)**	(7.7)
- Other tax differences	**(1.9)**	(3.6)
Net provision for deferred tax	**243.9**	256.4

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future periods.

The Government has announced that the corporation tax rate will gradually reduce from 23% to 20% with effect from 1 April 2015, and these proposals are contained in this year's Finance Bill. Assuming that the change to the corporation tax rates is enacted later this year, the effect of the 3% reduction in tax rates will be taken into account for the year ended 31 March 2014 in calculating the deferred tax provision at that date. As at 31 March 2013, a 3% reduction in corporation tax rates would reduce the deferred tax provision by circa £30 million.

The change in corporation tax to 23% has been substantively enacted at the balance sheet date and as such has been recognised in these financial statements.

The company has no deferred tax balance.

7. Property, plant and equipment

Group

Current year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2012	35.1	1,627.1	2,920.7	237.4	4,820.3
Additions net of grants and contributions	0.6	53.2	196.7	1.4	251.9
At 31 March 2013	**35.7**	**1,680.3**	**3,117.4**	**238.8**	**5,072.2**
Accumulated depreciation					
At 1 April 2012	17.9	212.3	1,132.8	225.4	1,588.4
Charge for the year	0.4	24.3	113.3	9.7	147.7
At 31 March 2013	**18.3**	**236.6**	**1,246.1**	**235.1**	**1,736.1**
Net book value					
At 31 March 2013	**17.4**	**1,443.7**	**1,871.3**	**3.7**	**3,336.1**

The net book value of property, plant and equipment includes £140.1m in respect of assets in the course of construction (2012: £106.8m).

The net book value of property, plant and equipment includes £20.2m of borrowing costs capitalised in accordance with IAS 23 (2012: £16.6m), of which £6.2m were additions in the year (2012: £6.2m).

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000km of private drains and sewers has increased the size of the network significantly. Little information is available to judge the condition of those sewers – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the regulatory capital value of the business, a value of nil has been attributed to these assets in the financial statements as at 31 March 2013 (2012: nil).

Prior year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2011	34.9	1,586.8	2,770.6	234.7	4,627.0
Additions net of grants and contributions	0.2	40.3	150.1	2.7	193.3
At 31 March 2012	35.1	1,627.1	2,920.7	237.4	4,820.3
Accumulated depreciation					
At 1 April 2011	17.3	188.4	1,037.1	205.3	1,448.1
Charge for the year	0.6	23.9	95.7	20.1	140.3
At 31 March 2012	17.9	212.3	1,132.8	225.4	1,588.4
Net book value					
At 31 March 2012	17.2	1,414.8	1,787.9	12.0	3,231.9

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

Group

Current year	**Infrastructure assets**	**Operational structures**	**Total**
	£m	**£m**	**£m**
At 31 March 2013			
Cost	611.8	307.7	919.5
Accumulated depreciation	(82.4)	(170.0)	(252.4)
Net book value	529.4	137.7	667.1

Prior year	**Infrastructure assets**	**Operational structures**	**Total**
	£m	**£m**	**£m**
At 31 March 2012			
Cost	611.8	483.9	1,095.7
Accumulated depreciation	(74.7)	(251.6)	(326.3)
Net book value at 31 March 2012	537.1	232.3	769.4

The parent company owns no property, plant or equipment.

8. Intangible assets

Group

	Cost	**Amortisation**	**Net book value**
Current year	**£m**	**£m**	**£m**
At 1 April 2012	**142.2**	**(75.6)**	**66.6**
Additions/(charge for the year)	**12.5**	**(13.0)**	**(0.5)**
At 31 March 2013	**154.7**	**(88.6)**	**66.1**

	Cost	**Amortisation**	**Net book value**
Prior year	**£m**	**£m**	**£m**
At 1 April 2011	129.6	(64.2)	65.4
Additions/(charge for the year)	12.6	(11.4)	1.2
At 31 March 2012	142.2	(75.6)	66.6

Intangible assets comprise computer software and related system developments.

The net book value of intangible assets includes £13.0m in respect of assets in the course of construction (2012: £12.9m). The net book value of intangible assets includes £1.1m of borrowing costs capitalised in acordance with IAS 23 (2012: £0.9m), of which £0.3m were additions in the year (2012: £0.5m).

The parent company owns no intangible assets.

9. Investments

(a) Group

	2013	2012
	£m	£m
Cost and net book value		
At 1 April and 31 March	**-**	-

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

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

In addition, the group holds 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) plc.

(b) Parent Company

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

	Principal activities	Country of incorporation	Holding
Dŵr Cymru (Holdings) Ltd	Holding company	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	England and Wales	100%
Dŵr Cymru (Financing) Ltd	Raising finance	Cayman Islands	100%
Welsh Water Utilities Finance plc	Raising finance	England and Wales	100%
Dŵr Cymru Customer Services Ltd	Income and billing Services	England and Wales	100%

10. Trade and other receivables

	Group		**Company**	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
(a) Current				
Trade receivables	**498.5**	487.7	**-**	-
Provision for impairment of receivables	**(61.4)**	(54.6)	**-**	-
Trade receivables - net	**437.1**	433.1	**-**	-
Prepayments and accrued income	**72.1**	66.3	**-**	-
Corporation tax	**-**	3.8	**-**	-
Other receivables	**16.9**	7.8	**-**	-
	526.1	511.0	**-**	-
(b) Non-current				
Amounts receivable from group undertakings	**-**	-	**3.4**	3.4
	-	-	**3.4**	3.4
Total trade and other receivables	**526.1**	511.0	**3.4**	3.4

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

As at 31 March 2013, based on a review of historical collection rates it was considered that £61.4m of trade receivables were impaired and these have therefore been provided for (2012: £54.6m). The impaired receivables relate mainly to the supply of measured and unmeasured water.

Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of receivables was as follows:

Current year **Trade receivables**	**Total** **£m**	**Provided for** **£m**	**Net** **£m**
Billed in advance	**389.9**	**-**	**389.9**
Under one month	**16.8**	**(4.2)**	**12.6**
Between one and six months	**31.1**	**(13.1)**	**18.0**
Between six months and one year	**22.6**	**(10.9)**	**11.7**
Between one and two years	**22.3**	**(18.7)**	**3.6**
Between two and three years	**14.5**	**(13.2)**	**1.3**
Over three years	**1.3**	**(1.3)**	**-**
	498.5	**(61.4)**	**437.1**

Prior year **Trade receivables**	**Total** **£m**	**Provided for** **£m**	**Net** **£m**
Billed in advance	389.3	-	389.3
Under one month	15.9	(3.5)	12.4
Between one and six months	26.9	(11.5)	15.4
Between six months and one year	19.5	(7.5)	12.0
Between one and two years	20.8	(17.2)	3.6
Between two and three years	13.8	(13.4)	0.4
Over three years	1.5	(1.5)	-
	487.7	(54.6)	433.1

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

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

	2013 **£m**	2012 £m
At 1 April	**54.6**	48.1
Charge to Income Statement	**26.7**	26.2
Receivables written off during the year as uncollectable	**(19.9)**	(19.7)
At 31 March	**61.4**	54.6

The creation and release of provision for impaired receivables have been included in operational expenditure.

The other classes of trade and other receivables do not contain impaired assets. All trade and other receivables are denominated in sterling.

During the year the group has written off £19.9m of debt which had been provided for in full (2012: £19.7m).

11. Cash and cash equivalents

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Cash at bank and in hand	**(13.7)**	(15.9)	**0.1**	0.1
Short-term deposits	**171.1**	316.4	**-**	-
	157.4	300.5	**0.1**	0.1

The effective interest rate on short-term deposits as at 31 March 2013 was 0.4% (2012: 0.7%) and these deposits had an average maturity of 12 days (2012: 31 days). All cash and cash equivalents are held in sterling.

12. Trade and other payables

	Group		Company	
	2013	2012	**2013**	2012
Current	**£m**	£m	**£m**	£m
Trade payables	**49.3**	47.7	**-**	-
Capital payables	**33.9**	27.2	**-**	-
Amounts due to group undertakings	**-**	-	**3.5**	3.5
Taxation and social security	**3.4**	2.8	**-**	-
Accruals and deferred income	**456.0**	456.5	**-**	-
	542.6	534.2	**3.5**	3.5

	Group		Company	
	2013	2012	**2013**	2012
Non-current	**£m**	£m	**£m**	£m
Deferred income	**67.7**	57.3	**-**	-

13. Financial liabilities – borrowings

Current	Group 2013 £m	2012 £m
Interest accruals	**51.3**	51.5
Unamortised bond premium	**0.6**	0.6
Unamortised bond issue costs	**(0.3)**	(0.3)
European Investment Bank loans	**13.5**	13.5
Local authority loans	**0.3**	0.4
Finance lease obligations	**14.3**	11.8
	79.7	77.5

Non-current	Group 2013 £m	2012 £m
Interest accruals	**38.5**	40.7
Bonds	**1,938.4**	1,899.3
Unamortised bond premium	**8.4**	9.0
Unamortised bond issue costs	**(5.6)**	(5.9)
KfW Bank loan	**35.0**	35.0
European Investment Bank loans	**197.5**	211.0
Local authority loans	**1.0**	1.2
Finance lease obligations	**602.0**	722.3
	2,815.2	2,912.6

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 £969.5m (2012: £950.3m) benefit from a guarantee from MBIA UK Insurance Limited ("MBIA"). MBIA's credit rating has been reduced to B3 and BBB+ by Moody's and S&P respectively, and is no longer rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A3/A/A from Moody's, S&P and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the MBIA guarantee, and is the same as the credit ratings of the group's Class B bonds of £968.9m (2012: £949.0m).

14. Derivative financial instruments

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges under IAS 39 and movements in their fair value are taken to the Income Statement (see note 4b). The fair values of all derivative financial instruments held by the group are the result of mark-to-market pricing by the issuing counterparties and as such fall within level 2 of the fair value hierarchy set out in IFRS 7.

Group - 2013	**Fair values**	
	Assets	**Liabilities**
	£m	**£m**
Current		
Index-linked swaps	**4.4**	**(26.5)**
Interest rate swaps	**-**	**(11.4)**
	4.4	**(37.9)**
Non-current		
Index-linked swaps	**-**	**(240.0)**
Interest rate swaps	**-**	**(85.7)**
	-	**(325.7)**
Total	**4.4**	**(363.6)**

Group - 2012	**Fair values**	
	Assets	**Liabilities**
	£m	**£m**
Current		
Index-linked swaps	4.4	(16.3)
Interest rate swaps	-	(8.7)
	4.4	(25.0)
Non-current		
Index-linked swaps	-	(206.3)
Interest rate swaps	-	(71.1)
	-	(277.4)
Total	4.4	(302.4)

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

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

Interest rate swaps
At 31 March 2013 an interest rate swap fixes the interest rate on £192m (2012: £192m) of floating liabilities held by the group. The maturity date of the swap is 31 March 2031 and the quarterly LIBOR fixed interest rate is 5.67%. In addition, £50m (2012: £50m) of finance lease liabilities have been swapped from a floating to a fixed LIBOR rate of 3.57% until March 2017. The notional amount of the swap is £50m (2012: £52m).

Index-linked swaps

Finance lease swaps
The index-linked swaps have the effect of index-linking the interest rate on £439m (2012: £549m) 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 2013 is £441m (2012: £528m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2013. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The principal terms are as follows:

Notional amount	£441m amortising (2012: £528m amortising)
Average swap maturity	24 years (2012: 24 years)
Average interest rate	1.63% fixed plus RPI (2012: 1.59% fixed plus RPI)

On 17 December 2012 the group repaid two leases which were index-linked through inflation swaps. These inflation swaps have a notional value of £87 million (2012: £90 million) and have been reallocated to index-linked European Investment Bank debt.

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	£124m (2012: £120m)
Swap maturity	44 years (2012: 45 years)
Interest rate	1.35% indexed by RPI (2012: 1.35% indexed by RPI)

15. Financial risk management

The policies of the group in respect of financial risk management are included in the accounting policies note on page 27. 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:

	2013	2012
Assets:		
Cash and cash equivalents	**0.4%**	0.7%
Liabilities:		
Bonds	**5.1%**	5.0%
European Investment Bank loans	**1.0%**	1.3%
KfW loan	**1.2%**	1.7%
Local authority loans	**6.0%**	5.1%
Finance lease obligations	**1.2%**	2.0%

Trade and other receivables and payables are non interest-bearing.
The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 14. They also exclude the indexation charge applicable to the index-linked bonds.

b) Liquidity risk

Group - 2013	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	**157.4**	**-**	**-**	**-**	**157.4**
Trade and other receivables	**454.0**	**-**	**-**	**-**	**454.0**
	611.4	**-**	**-**	**-**	**611.4**
Liabilities:					
Bonds	**0.6**	**0.7**	**1.8**	**1,944.3**	**1,947.4**
KfW Bank loan	**-**	**-**	**35.0**	**-**	**35.0**
European Investment Bank loans	**13.5**	**15.9**	**53.5**	**128.1**	**211.0**
Local authority loans	**0.3**	**0.3**	**0.5**	**0.2**	**1.3**
Finance lease obligations	**14.3**	**43.3**	**83.8**	**474.9**	**616.3**
Trade and other payables	**83.2**	**1.8**	**4.7**	**61.2**	**150.9**
	571.3	**59.6**	**173.7**	**2,616.7**	**3,420.5**

Group - 2012	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	300.5	-	-	-	300.5
Trade and other receivables	445.6	-	-	-	445.6
	746.1	-	-	-	746.1
Liabilities:					
Bonds	0.6	0.7	1.8	1,905.8	1,908.9
KfW Bank loan	-	-	35.0	-	35.0
European Investment Bank loans	13.5	13.5	47.9	149.6	224.5
Local authority loans	0.4	0.3	0.5	0.4	1.6
Finance lease obligations	11.8	16.0	118.5	587.8	734.1
Trade and other payables	534.2	1.8	4.7	50.8	591.5
	560.5	32.3	208.4	2,694.4	3,495.6

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

	2013 £m	2012 £m
Gross finance lease liabilities		
Within one year	**21.1**	26.7
Between two and five years	**153.9**	192.0
After five years	**542.4**	719.8
	717.4	938.5
Future interest	**(101.1)**	(204.4)
Net finance lease liabilities	**616.3**	734.1
Net finance lease liabilities are repayable as follows:		
Within one year (note 14)	**14.3**	11.8
Between two and five years	**127.1**	134.5
After five years	**474.9**	587.8
Total over one year (note 14)	**602.0**	722.3

c) Fair values

The fair values of the group's derivative financial instruments are set out in note 14. The following table summarises the fair value and book value of the group's bonds.

	2013		2012	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds (note 14)	**1,947.4**	**2,498.7**	1,908.9	2,268.9

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

d) Borrowing facilities

As at 31 March 2013, the group had available undrawn committed borrowing facilities of £215m expiring as set out below, in respect of which all conditions precedent had been met (2012: £215m).

	2013 £m	2012 £m
Expiring in less than 1 year:		
- term loan facility	**75**	75
Expiring in more than 1 year:		
- revolving credit facilities	**140**	140
	215	215

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

The group has £140 million of revolving credit facilities, of which £50 million is available to be drawn until May 2016 and £90 million is available until May 2017.

At 31 March 2013, Dŵr Cymru (Financing) Limited also had a special liquidity facility of £135m (2012: £135m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be fundwed through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

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

e) Capital risk management

Gearing ratios

	2013 £m	2012 £m
Total borrowings	**(2,895)**	(2,990)
Less: cash and cash equivalents	**157**	301
Net debt	**(2,738)**	(2,690)
Regulatory capital value (RCV)	**4,344**	4,171
Total capital	**1,606**	1,482
Less: unamortised bond costs	**(6)**	(6)
Total capital per bond covenants	**1,600**	1,476
Gearing ratio	**63%**	65%

As set out on page 28 the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

16. Provisions

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2012	10.5	2.0	5.6	2.3	20.4
Charged to income statement	-	0.1	4.3	2.5	6.9
Utilised in year	(3.5)	-	(2.7)	(0.5)	(6.7)
At 31 March 2013	**7.0**	**2.1**	**7.2**	**4.3**	**20.6**
Split as:					
Amounts to be utilised within one year	7.0	-	2.0	1.5	10.5
Amounts to be utilised after more than one year	-	2.1	5.2	2.8	10.1
At 31 March 2013	**7.0**	**2.1**	**7.2**	**4.3**	**20.6**

The parent company has no provisions at 31 March 2013 (2012: £nil).

Restructuring provision
This provides for the costs of terminating the outsourced contracts with United Utilities Operational Services and Kelda Water Services in the year to 31 March 2011 along with the estimated restructuring costs associated with a reduction in the headcount by some 300.

Dilapidations provision
This provision relates to estimated dilapidation costs, which will be incurred over the next five years.

Uninsured loss provision
This provision is in respect of uninsured losses and instances where insurance does not cover a deductible amount. The utilisation period of these liabilities is uncertain due to the nature of claims, but is estimated to be within five years.

Other provisions
Other provisions are made for certain other obligations which arise during the ordinary course of the group’s business.

17. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group	
	2013	2012
	£m	£m
Operating profit	**183.3**	191.4
Adjustments for:		
- Depreciation and amortisation	**158.7**	150.0
- Changes in working capital:		
Increase in trade and other receivables	**(18.8)**	(23.1)
(Increase)/decrease in inventory	**(0.7)**	0.5
Increase in trade and other payables	**1.7**	30.2
Pension contributions in excess of operating costs	**(0.5)**	(10.6)
Pension service charge adjustment	**2.1**	-
Increase/(decrease) in provisions	**0.2**	(0.9)
	(16.0)	(3.9)
Cash generated from operations	**326.0**	337.5

b) Interest paid

	Group	
	2013	2012
	£m	£m
Interest payable per income statement	**141.3**	189.7
Less non-cash items:		
- Indexation on index-linked bonds	**(38.9)**	(52.1)
- Amortisation of bond issue costs	**(0.3)**	(0.4)
- Interest charge on pension scheme liabilities	**(1.5)**	(0.1)
- Amortisation of bond issue premium	**0.6**	0.6
- Effect of capitalisation under IAS 23	**6.5**	6.7
- Accounting profit on lease termination	**14.4**	-
- Decrease/(increase) in accruals	**2.4**	(46.4)
	(16.8)	(91.7)
Interest paid	**124.5**	98.0

18. Analysis and reconciliation of net debt

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

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Cash and cash equivalents	**157.4**	300.5	**0.1**	0.1
Debt due after one year	**(2,174.7)**	(2,149.6)	**-**	-
Debt due within one year	**(14.1)**	(14.2)	**-**	-
Finance leases	**(616.3)**	(734.1)	**-**	-
Accrued interest	**(89.8)**	(92.2)	**-**	-
	(2,894.9)	(2,990.1)	**-**	-
Net (debt)/cash	**(2,737.5)**	(2,689.6)	**0.1**	0.1

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

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Net (debt)/cash at start of year	**(2,689.6)**	(2,662.5)	**0.1**	0.1
Movement in net cash	**(143.1)**	202.2	**-**	-
Movement in debt arising from cashflows	**117.4**	(131.6)	**-**	-
Movement in net debt arising from cash flows	**(25.7)**	70.6	**-**	-
Movement in accrued interest	**2.4**	(46.4)	**-**	-
Indexation of index-linked debt	**(38.9)**	(52.1)	**-**	-
Accounting profit on lease termination	**14.4**	-		
Other non-cash movements	**(0.1)**	0.8	**-**	-
Movement in net debt during the year	**(47.9)**	(27.1)	**-**	-
Net (debt)/cash at end of year	**(2,737.5)**	(2,689.6)	**0.1**	0.1

19. Employees and directors

Staff costs for the group during the year

	2013	2012
	£m	£m
Wages and salaries	**82.5**	67.1
Social security costs	**7.0**	5.4
Other pension costs	**12.0**	7.0
	101.5	79.5

Of the above, £27.3m (2012: £21.4m) has been capitalised.

Average monthly number of people employed by the group (including executive directors)	2013 Number	2012 Number
Regulated water and sewerage activities	**2,617**	1,931

Since Glas Cymru was formed in 2001 income and billing services have been provided by Veolia Water Services (VWS). On 1 August 2012 some 400 VWS employees TUPE tranferred into Dŵr Cymru Customer Services Ltd (a wholly owned subsidiary of Dŵr Cymru Cyfyngedig) following the termination of the customer services contract.

20. Pension commitments

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

The DCWW Pension Scheme was closed to new members from 31 December 2005 and a new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2011 by Robert Davies of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2013 and the principal assumptions made by the actuaries were:

	2013	2012
Discount rate	**4.5%**	5.0%
Inflation assumption	**3.2%**	3.2%
Rate of increase in pensionable salaries	**3.2%**	3.7%
Rate of increase in pensions in payment	**3.1%**	3.1%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	**86.9 years**	87.7 years
- Current pensioners aged 65 - females	**89.6 years**	90.4 years
- Future pensioners aged 65 (currently aged 45) - males	**89.8 years**	90.7 years
- Future pensioners aged 65 (currently aged 45) - females	**92.5 years**	93.3 years

Post retirement mortality assumptions are based on those in published actuarial tables “PA92”, relevant to members’ year of birth with long cohort adjustments.

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

	2013		2012	
	Expected return	**% of total assets**	Expected return	% of total assets
Equities	**6.5%**	**54.8%**	6.5%	50.8%
Bonds	**5.0%**	**28.6%**	5.0%	13.0%
Other	**3.0%**	**6.0%**	3.0%	36.1%

The amounts recognised in the Income Statement are as follows:

	2013	2012
	£m	£m
Current service cost (excluding member contributions)	**10.6**	8.9
Past service cost	**2.2**	1.5
	12.8	10.4
Utilisation of restructuring provision	**(2.2)**	(2.1)
Total included within staff costs	**10.6**	8.3
Interest cost	**14.2**	13.3
Expected return on plan assets	**(12.7)**	(13.2)
Total included within interest payable and similar charges	**1.5**	0.1
Total recognised in the Income Statement	**12.1**	8.4

Note that the defined contribution scheme charge of £0.9m (2012: £0.4m) has also been included within staff costs.

The amounts recognised in the Statement of Comprehensive Income are as follows:

	2013	2012
	£m	£m
Actuarial gain/(loss) on plan assets	**17.9**	(9.5)
Actuarial loss on defined benefit obligation	**(15.6)**	(16.3)
Total recognised in the Statement of Comprehensive Income	**2.3**	(25.8)

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

	2013	2012
	£m	£m
Present value of funded obligations	**(323.3)**	(272.8)
Plus unrecognised prior service costs	**-**	0.1
Fair value of plan assets	**291.2**	240.8
Net liability recognised in the Balance Sheet	**(32.1)**	(31.9)
EFRBS unfunded liability	**(0.7)**	-
Net liability recognised in the Balance Sheet	**(32.8)**	(31.9)

Notes to the financial statements

Changes in the present value of the defined benefit obligation are as follows:

	2013 £m	2012 £m
At 1 April	**272.8**	238.6
Current service cost (including member contributions)	**11.1**	9.3
Past service cost (vested benefits)	**2.2**	1.4
Interest cost	**14.1**	13.3
Benefits paid (net of transfers in)	**(6.4)**	(6.1)
Bulk transfer of liabilities	**13.8**	-
Actuarial loss	**15.7**	16.3
At 31 March	**323.3**	272.8

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

	2013 £m	2012 £m
At 1 April	**240.7**	222.9
Expected return on plan assets	**12.6**	13.2
Contributions (including member contributions)	**11.7**	20.3
Benefits paid (net of transfers in)	**(6.4)**	(6.1)
Bulk transfer of assets	**14.7**	-
Actuarial gain/(loss) on plan assets	**17.9**	(9.5)
At 31 March	**291.2**	240.7

Analysis of the movement in the amount recognised on the balance sheet:

	2013 £m	2012 £m
At 1 April	**31.9**	15.5
Total charge to Income Statement (including utilisation of restructuring provision)	**14.3**	10.5
Total charge to Statement of Comprehensive Income	**(2.3)**	25.8
Bulk transfer (net liability)	**(0.6)**	-
Contributions paid (excluding member contributions)	**(11.2)**	(19.9)
At 31 March	**32.1**	31.9

	2013	2012	2011	2010	2009
Experience adjustments arising on scheme assets:					
Amount (£m)	**17.9**	(9.5)	(8.2)	10.0	(9.3)
Percentage of scheme assets	**(6%)**	(4%)	(4%)	21%	(29%)
Experience adjustments arising on scheme liabilities:					
Amount (£m)	**(15.7)**	(16.4)	3.6	11.5	(1.1)
Percentage of the present value of scheme liabilities	**(5%)**	(6%)	2%	21%	(3%)
Present value of scheme liabilities (£m)	**323.3**	272.8	238.4	54.8	40.1
Fair value of scheme assets (£m)	**291.1**	240.7	222.9	46.8	32.3
Deficit (£m)	**(32.1)**	(31.9)	(15.5)	(8.0)	(7.8)

The contributions paid in the year to 31 March 2013 include a special contribution of £0.5m (2012: £2.6m). A further £0.9m was paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2012: £8.0m) The special contribution expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2014 amounts to nil.

21. Capital and other financial commitments

The group’s business plan at 31 March 2013 shows net capital expenditure and infrastructure renewals expenditure of £313m (2012: £310m) during the next financial year. While only a portion of this amount has been formally contracted for, the group is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

22. Related party transactions

In accordance with the exemption afforded by IAS 24 there is no disclosure in the consolidated financial statements of transactions with entities that are part of the Glas Cymru Cyfyngedig group. The parent company has not entered into transactions with any other group company during the year (2012: none).

23. 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.

24. Elan Valley Trust Fund

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

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

The assets of the fund are not included in these financial statements. As at 31 March 2013 the market value of the trust fund was £112m (2012: £110m).

Interest receivable includes £4.6m (2012 £2.7m) in respect of distributions from the Elan Valley Trust Fund.

25. Contingent liabilities

There were no contingent liabilities other than those arising from in ordinary course of the group's business and on these no material losses are anticipated.