Dŵr Cymru
Welsh Water

Annual Performance Report 2017 - 18

Part 1 – Regulatory Financial Reporting

dwrcymru.com

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Statement of Directors' responsibilities for regulatory information

The following confirmations from our Directors are provided to comply with the requirements of Condition F of our Licence, which requires that accounting statements are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat. In particular, Regulatory Accounting Guideline 3.10 issued in November 2017 requires the following Statements to be made by our Directors:

- Statement of Directors' pay and standards of performance;
- Statement on disclosure of information to auditors;
- Statement on dividend policy;
- Statement on diversification and protection of the core business;
- Statement on long term viability; and
- Statement on sufficient rights and assets (sometimes referred to as ring-fencing).

Statement on Directors' pay and standards of performance

The company is required under s35A of the Water Industry Act 1991 to provide a statement that the remuneration paid to Executive Directors is linked to standards of performance. This Statement is provided within the Directors' Remuneration Report which can be found within Part 4 of this Annual Performance Report (page 100) and also in our Report and Annual Accounts for 2017/18 which are available at www.dwrcymru.com

Statement on disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the Annual Performance Report is approved under Section 418 of the Companies Act 2006 the following applies:

a) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and

b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of the information.

Statement on dividend policy

Paragraph 6 and line 1A of the Appendix to Licence Condition F requires companies to report on the value of any dividend paid and provide a comprehensive explanation of the basis of the dividend.

Dŵr Cymru's ultimate parent undertaking is Glas Cymru Holdings Cyfyngedig, a company formed with the single purpose to manage Dŵr Cymru. As a company limited by guarantee, and having no shareholders, all financial surpluses are reinvested for the benefit of customers. The reserves built up from retained profits help to insulate Dŵr Cymru and its customers from any unexpected costs and also to improve credit quality to keep the cost of finance as low as possible.

A new dividend policy was approved by Ofwat in December 2015 and formally adopted by the Board in the June 2016 Board meeting. No monies are transferred out of the Glas Cymru group of companies under this policy and all financial surpluses are retained for the benefit of customers. Our dividend policy expressly provides that dividends will not be paid unless the Directors are satisfied that this would not impair Dŵr Cymru's ability to finance its regulatory activities.

During the year to 31 March 2018 no dividends were paid or received by the company.

Statement on diversification and protection of the core business

The Directors have resolved that a Certificate required under Condition F6A.2A be issued to the Water Services Regulation Authority confirming that in the opinion of the Directors:

a) The company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next twelve months, the Regulated Activities (including the investment programme necessary to fulfil the company's obligations under the Appointment); and

b) The company will, for at least the next twelve months, have available to it management resources which are sufficient to enable it to carry out those functions.

In providing this Certificate, the Directors have taken into account:

a) The company's Licence, which is in place on a rolling 25 year basis;

b) The certainty on customer tariffs to March 2020 provided by the 2014 Final Determination of prices by Ofwat, following its acceptance by the Board;

c) The financial strength of the company and the management and other resources available to the company as recorded in the Financial Statements for the year ended 31 March 2018;

d) The bond programme of financing implemented by Dŵr Cymru (Financing) Limited, an associate company, inter alia, to provide future financing for the company (including the investment programme necessary to fulfil the company's obligations under the Instrument of Appointment);

e) The strong credit rating of the company's bonds;

f) The results from the ongoing monitoring of financial, operational and compliance controls and the risk management process reported to the Board via four formal committees; the Audit Committee; the Remuneration Committee; the Nominations Committee; and the Quality and Environment Committee. The Group's internal audit function has carried out a programme of work, which incorporates a review of the control environment;

g) The annual review of the effectiveness of internal controls in compliance with the requirements of the UK Corporate Governance Code;

h) The company's formal risk and governance arrangements which are monitored by the Audit Committee and Board;

i) The company's employment policies and strategy;

j) The company's plans for the remainder of this regulatory period; and

k) The Undertaking that Glas Cymru Cyfyngedig ("Glas Cymru") has given following the acquisition of the company, in which Glas Cymru confirms that it (and each of its subsidiaries other than the company) will:

- provide the company with all such information as may be necessary to enable the company to comply with the requirements of the conditions of Appointments, or such additional information as the Director may reasonably require about their activities and the financing of them;
- refrain from any action which would or may cause the company to breach any of its obligations under the Act or conditions of Appointments;
- ensure that at all times the Board of the company contains a majority of Non-Executive Directors;
- comply with the Principles of Good Governance outlined in the current UK Corporate Governance Code published by the Financial Reporting Council (or any successor document having a similar purpose or intent) as may from time to time be appended to or approved for the purposes of the Listing Rules of the UK Listing Authority; and
- not make any changes to their respective Memorandum and Articles of Association without the consent of Ofwat.

This Directors' Certificate also confirms that in the opinion of the Directors all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to the company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

Section 6A.4 (2) (a) of Licence Condition F requires our independent auditors to produce a report that sets out:

- whether they are aware of any inconsistencies between the Director's Certificate and any of the accounting records; and
- the extent to which the company has complied with its obligations under Licence Condition F6A.2A.

The independent auditors report can be found on Page 7.

Licence Condition F6A.6 – maintaining an investment grade rating

The Directors confirm that throughout 2017/18 the company, or an associated company as issuer of debt on its behalf, has ensured that it has maintained at all times an issuer credit rating which is an Investment grade rating. 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 2018 were (A/A2/A) from Standard & Poor's, Moody's and Fitch Ratings.

Statement on sufficient rights and assets

Under paragraph 3.1 of Condition K of the Licence, the company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the company.

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the Financial Statements for the year ended 31 March 2018 have been prepared on a going concern basis.

Long term viability statement

Our customers need to know they can rely on the services we provide over the long term. Ensuring the long-term resilience of our business, including financial resilience, is therefore a key area of focus for us. Ofwat expects companies to confirm that they are financially viable over the longer term. Our approach to doing this complies fully with section C.2.2 of the UK Corporate Code.

As a result of our assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030. The Long Term Viability Statement is provided within Part 4 of this Annual Performance Report (on page 96) and also in our Report and Annual Accounts for 2017/18 which are available at www.dwrcymru.com.

Licence Condition F6.1 – trading with associate companies at arm's length

We have an obligation to ensure that every transaction between the Appointed Business and any associated company is at arm's length so neither gives to nor receives from the other any cross-subsidy. There were no material transactions with associated companies except for:

- the Directors of Dŵr Cymru Cyfyngedig are also directors of other companies within the Glas Cymru Group. However, the emoluments of the Directors are paid in full by Dŵr Cymru Cyfyngedig as their activities are predominantly related to the regulated water and sewerage business. During the year the Directors' emoluments amounted to £2,184,565 (2017: £2,267,566);
- no dividends were paid or received by the company during the year. In 2016/17 the company declared and paid dividends totalling £30,226,000. Distributions were made in accordance with the company's Dividend Policy which has been approved by Ofwat and formally adopted by the Board;
- during the year £69,864 (2017: £346,038) of Welsh Water Infrastructure Ltd (WWIL) costs were paid by the company on behalf of WWIL. This value has been included in the company's Balance Sheet as a loan to WWIL;
- during the year £300,458 of Cambrian Utilities Limited costs were paid by the company on behalf of Cambrian. This has been included in the company's Balance Sheet as a loan to Cambrian; and
- intercompany interest payable to Dŵr Cymru (Financing) Limited (DCF) was £144,527,000 (2017: £124,339,000). As at 31 March 2018 the balance outstanding on the intercompany loan from DCF stood at £2,560,975,000 (2017: £2,279,260,000). All borrowings raised by DCF are immediately on-lent to Dŵr Cymru Cyfyngedig on an arm's length basis. The Intercompany loan agreement is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and to its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing in the due date plus a margin of 0.01%.

For a complete list please see Note 3 of Part 4.

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Dŵr Cymru Cyfyngedig

Opinion

We have audited the tables within Dŵr Cymru Cyfyngedig's Regulatory Accounting Statements within the company's Annual Performance Report for the year ended 31 March 2018 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J) and the related notes.

We have not audited the outcome performance tables (tables 3A to 3S) or the additional regulatory information in tables 4A to 4W.

In our opinion, Dŵr Cymru Cyfyngedig's Regulatory Accounting Statements within the Annual Performance Report have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.10, RAG 4.07 and RAG 5.07) and the accounting policies (including the company's published Accounting Separation Methodology Statement, as defined in RAG 3.10, appendix 2), set out in Part 4 on page 63.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England and Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements under the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory accounting statements within the Annual Performance Report have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published Accounting Separation Methodology Statement, as defined in RAG 3.10, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the company and has not been prepared under the basis of International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements in Parts 1 and 2 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or

- the directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out above, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the company's accounting policies (including the company's published Accounting Separation Methodology Statement, as defined in RAG 3.10, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the company's Annual Performance Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the Directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company.

The company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in the accounting policies note in Part 4 and its Accounting Separation Methodology Statement published on the company's website. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Use of this report

This report is made, on terms that have been agreed, solely to the company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the company for the year ended 31 March 2018 on which we reported on 07 June 2018, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the company (our "Statutory audit report") was made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

James Ledward
For and on behalf of KPMG LLP
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
6 July 2018

1A – Income statement for the year ended 31 March 2018

	Ref	Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed[2] £m	Adjustments: Total adjustments £m	Total appointed £m
Revenue	2A	**756.790**	(4.397)	5.051	**(9.448)**	**747.342**
Operating costs	2A	**(679.649)**	(8.292)	(4.550)	**(3.742)**	**(683.391)**
Other operating income		**1.801**	-	-	**-**	**1.801**
Operating profit	2A	**78.942**	(12.689)	0.501	**(13.190)**	**65.752**
Other income		**-**	14.689	-	**14.689**	**14.689**
Interest income		**3.877**	-	0.139	**(0.139)**	**3.738**
Interest expense		**(178.550)**	(16.400)	-	**(16.400)**	**(194.950)**
Other interest expense		**(2.494)**	-	-	**-**	**(2.494)**
(Loss)/profit before tax and fair value movements		**(98.225)**	(14.400)	0.640	**(15.040)**	**(113.265)**
Fair value gains on financial instruments		**52.265**	-	-	**-**	**52.265**
(Loss)/profit before tax		**(45.960)**	(14.400)	0.640	**(15.040)**	**(61.000)**
UK corporation tax		**1.008**	-	-	**-**	**1.008**
Deferred tax		**5.464**	2.448	(0.109)	**2.557**	**8.021**
(Loss)/profit for the year	1B	**(39.488)**	(11.952)	0.531	**(12.483)**	**(51.971)**
Dividends		**-**	-	-	**-**	**-**

[1] Differences between statutory and RAG definitions; for further details see note 1 (Notes to the regulatory accounts) in Part 4.

[2] See Accounting policies note in Part 4 (Appointed and non-appointed business) for a description of the company's non-appointed activities.

1A – Income statement for the year ended 31 March 2018 (continued)

Tax analysis

	Statutory	Adjustments: RAG differences[1]	Adjustments: Non-appointed[2]	Adjustments: Total adjustments	Total appointed
	£m	£m	£m	£m	£m
Current year	(0.093)	-	-	-	(0.093)
Adjustments in respect of prior years	(0.915)	-	-	-	(0.915)
UK Corporation tax	**(1.008)**	-	-	-	**(1.008)**

Analysis of non-appointed revenue

	Non-appointed £m
Imported sludge	-
Tankered waste	1.400
Other non-appointed revenue	3.651
Revenue	**5.051**

[1] Differences between statutory and RAG definitions; for further details see note 1 (Notes to the regulatory accounts) in Part 4.

[2] See Accounting policies note in Part 4 (Appointed and non-appointed business) for a description of the company's non-appointed activities.

1B – Statement of comprehensive income for the year ended 31 March 2018

	Ref	Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed[2] £m	Adjustments: Total adjustments £m	Total appointed £m
(Loss)/profit for the year	1A	**(39.488)**	(11.952)	0.531	**(12.483)**	**(51.971)**
Actuarial gains on post-employment plans		**9.400**	-	-	**-**	**9.400**
Other comprehensive income[3]		**131.230**	-	-	**-**	**131.230**
Total comprehensive income for the year		**101.142**	(11.952)	0.531	**(12.483)**	**88.659**

[1] Differences between statutory and RAG definitions; for further details see note 1 (Notes to the regulatory accounts) in Part 4.

[2] See Accounting policies note in Part 4 (Appointed and non-appointed business) for a description of the company's non-appointed activities.

[3] Further details are provided in the statement of changes in equity; note 4 in Part 4.

1C – Statement of financial position as at 31 March 2018

			Adjustments			
		Statutory	RAG differences[1]	Non-appointed[2]	**Total adjustments**	**Total appointed activities**
	Ref	**£m**	£m	£m	**£m**	**£m**
Non-current assets						
Fixed assets	2D	**5,296.088**	(55.380)	-	**(55.380)**	**5,240.708**
Intangible assets		**145.984**	(5.558)	-	**(5.558)**	**140.426**
Financial instruments		**1.900**	-	-	**-**	**1.900**
Total non-current assets		**5,443.972**	(60.938)	-	**(60.938)**	**5,383.034**
Current assets						
Inventories		**3.175**	-	-	**-**	**3.175**
Trade and other receivables		**576.057**	-	-	**-**	**576.057**
Financial instruments		**2.900**	-	-	**-**	**2.900**
Cash and cash equivalents	1E	**274.806**	-	46.582	**(46.582)**	**228.224**
Total current assets		**856.938**	-	46.582	**(46.582)**	**810.356**
Current liabilities						
Trade and other payables		**(507.051)**	(0.459)	-	**(0.459)**	**(507.510)**
Capex creditor		**(60.317)**	-	-	**-**	**(60.317)**
Borrowings		**(40.902)**	5.996	-	**5.996**	**(34.906)**
Financial instruments		**(28.241)**	-	-	**-**	**(28.241)**
Provisions		**(2.406)**	-	-	**-**	**(2.406)**
Total		**(638.917)**	5.537	-	**5.537**	**(633.380)**
Net current assets		**218.021**	5.537	46.582	**(41.045)**	**176.976**

[1] Differences between statutory and RAG definitions; for further details see note 1 (Notes to the regulatory accounts) in Part 4.

[2] See Accounting policies note in Part 4 (Appointed and non-appointed business) for a description of the company's non-appointed activities.

1C – Statement of financial position as at 31 March 2018 (continued)

	Statutory	Adjustments: RAG differences[1]	Adjustments: Non-appointed[2]	Adjustments: Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current liabilities					
Trade and other payables	**(233.882)**	184.745	-	**184.745**	**(49.137)**
Borrowings	**(3,356.300)**	48.800	-	**48.800**	**(3,307.500)**
Financial instruments	**(242.900)**	-	-	**-**	**(242.900)**
Retirement benefit obligations	**(80.379)**	-	-	**-**	**(80.379)**
Provisions	**(7.492)**	-	-	**-**	**(7.492)**
Deferred income – grants and contributions	**-**	(0.018)	-	**(0.018)**	**(0.018)**
Deferred income – adopted assets	**-**	(239.064)	-	**(239.064)**	**(239.064)**
Deferred tax	**(427.598)**	11.668	0.109	**11.559**	**(416.039)**
Total non-current liabilities	**(4,348.551)**	6.131	0.109	**6.022**	**(4,342.529)**
Net assets	**1,313.442**	(49.270)	46.691	**(95.961)**	**1,217.481**
Equity					
Called-up share capital	**309.900**	-	-	**-**	**309.900**
Retained earnings and other reserves	**1,003.542**	(49.270)	46.691	**(95.961)**	**907.581**
Total equity[3]	**1,313.442**	(49.270)	46.691	**(95.961)**	**1,217.481**

[1] Differences between statutory and RAG definitions; for further details see note 1 (Notes to the regulatory accounts) in Part 4.

[2] See Accounting policies note in Part 4 (Appointed and non-appointed business) for a description of the company's non-appointed activities.

[3] A statement of changes in equity has been provided in note 4 in Part 4 to enable reconciliation between tables 1B and 1C.

1D – Statement of cash flows for the year ended 31 March 2018

Statement of cash flows	Ref	Statutory £m	Adjustments: RAG differences[1] £m	Adjustments: Non-appointed £m	Adjustments: Total adjustments £m	Total appointed £m
Operating profit	**1A**	**78.942**	(12.689)	0.501	**(13.190)**	**65.752**
Other income		**-**	9.488	-	**9.488**	**9.488**
Depreciation[2]	**2D**	**281.157**	(2.000)	-	**(2.000)**	**279.157**
Amortisation – grants and contributions		**(5.201)**	5.201	-	**5.201**	**-**
Changes in working capital		**2.700**		-	**-**	**2.700**
Pension contributions		**(5.100)**	-	-	**-**	**(5.100)**
Movement in provisions		**(2.008)**	-	-	**-**	**(2.008)**
Profit on sale of fixed assets		**(1.801)**	-	-	**-**	**(1.801)**
Cash generated from operations		**348.689**	-	0.501	**(0.501)**	**348.188**
Net interest paid		**(130.700)**	-	0.140	**(0.140)**	**(130.840)**
Tax paid		**0.333**	-	-	**-**	**0.333**
Net cash generated from operating activities		**218.322**	-	0.641	**(0.641)**	**217.681**
Investing activities						
Capital expenditure		**(350.319)**	-	-	**-**	**(350.319)**
Grants and contributions		**11.419**	-	-	**-**	**11.419**
Disposal of fixed assets		**2.488**	-	-	**-**	**2.488**
Net cash used in investing activities		**(336.412)**	-	-	**-**	**(336.412)**
Net cash flow before financing activities		**(118.090)**	**-**	0.641	**(0.641)**	**(118.731)**
Cash flows from financing activities						
Net loans received		**324.867**	-	-	**-**	**324.867**
Net cash flow from financing activities		**324.867**	-	-	**-**	**324.867**
Increase in net cash		**206.777**	**-**	**0.641**	**(0.641)**	**206.136**

[1] Differences between statutory and RAG definitions; for further details see note 1 (Notes to the regulatory accounts) in Part 4.

[2]

Depreciation		
Tangible fixed assets	4D/2A	257.594
Intangible fixed assets	2A	21.563
		279.157

1E – Net debt analysis as at 31 March 2018

	Interest rate risk profile			
	Fixed rate £m	**Floating rate[1] £m**	**Index-linked £m**	**Total appointed £m**
Borrowings (excluding preference shares)	1,217.287	-	2,125.119	3,342.406
Preference share capital				-
Total borrowings				**3,342.406**
Cash				(1.747)
Short term deposits				(220.818)
Cash and cash equivalents[2]				**(222.565)**
Net debt				**3,119.841**
Gearing				57.05%
Adjusted gearing[3]				57.01%
Full year equivalent nominal interest cost	68.093	2.179	125.713	195.985
Full year equivalent cash interest payment	68.093	2.179	69.916	140.188
Indicative interest rates				
Indicative weighted average nominal interest rate	5.59%	-	5.92%	5.86%
Indicative weighted average cash interest rate	5.59%	-	3.29%	4.19%
Weighted average years to maturity	9.95	-	16.93	14.37

[1] Unlike previous years, the company had a small amount of floating rate debt during the year. This was the result of a shift in the profile of overall debt against amortising swap profiles. The floating rate value of £2.179m is not significant (being just 0.00065% of gross debt).

[2] Total cash and cash equivalents

	£m
Cash and cash equivalent (1C)	228.224
Add: overdrawn funds included in trade payable (1C)	(5.659)
Cash and cash equivalents (1E)	**222.565**

[3] Adjusted gearing

The gearing ratio used by the company includes accrued interest as well as all cash held within the whole business securitisation structure.

The Ofwat measure of gearing excludes accrued interest and uses cash allocated to the appointed business only.

	Net debt £m	RCV £m	Gearing %
Gearing	3,120	5,469	57.05%
Accrued interest	57		
Group cash	(59)		
	(2)		
Adjusted gearing	3,118	5,469	57.01%