Registered Nº: 3975719

Glas Cymru Anghyfyngedig

Annual report and non-statutory financial statements for the year ended 31 March 2017

Registered office
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

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Foreword

These financial statements for the Glas Cymru Anghyfyngedig group cover the year to 31 March 2017.

Glas Cymru Anghyfyngedig is the parent company of a group of companies forming a Whole Business Securitisation and governed by a Common Terms Agreement.

The company's immediate parent and holding company is Glas Cymru Holdings Cyfyngedig; a company limited by guarantee which was formed on 15 December 2015 and registered in England and Wales.

References to 'Glas Cymru' in these financial statements relate to the Glas Cymru Anghyfyngedig group and not the larger group headed by the ultimate parent company, Glas Cymru Holdings Cyfyngedig.

The Glas Cymru Anghyfyngedig group structure consists of:

- Glas Cymru (Securities) Cyfyngedig, the holding company of Dŵr Cymru (Holdings) Ltd and its subsidiaries.

- Dŵr Cymru Holdings Ltd, the intermediate holding company of Dŵr Cymru Cyfyngedig and Dŵr Cymru (Financing) Ltd.

- Dŵr Cymru Financing Ltd, the 'issuer' company for the group's bonds, which are listed on the Luxembourg Bourse. Dŵr Cymru (Financing) Ltd is incorporated in the Cayman Islands but is managed, controlled and resident in the UK for tax purposes. The company on-lends the proceeds of any bonds issued to Dŵr Cymru Cyfyngedig.

- Dŵr Cymru Cyfyngedig is a wholly-owned subsidiary of Glas Cymru Anghyfyngedig and is the group's principal operating company. Its principal activity is the supply of water and treatment and disposal of waste water under the Instrument or Appointment made by the Secretary of State for Wales under the Water Act 1989.

Directors and advisers

Directors

Chris Jones	Chief Executive
Peter Bridgewater	Finance and Commercial Director
Peter Perry	Chief Operating Officer

Company Secretary
Nicola Williams

Independent auditor
KPMG LLP
Cardiff

Solicitor
Linklaters LLP
London

Principal banker
National Westminster Bank Plc
Brecon

Strategic report for the year ended 31 March 2017

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

Customer Service

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

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

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

Business Customers

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

Developers

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

Public Water Supply

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

Our one area of water service performance where we still have considerable issues to address involves intermittent problems with the taste, odour or discolouration of water for some customers. Last year, we had 2.9 contacts per 1,000 customers on such issues, the same as the year before (against a target of 2.7 per 1,000). We are determined to improve on this performance. Our £130 million Zonal Studies investment programme is targeted to help address this and transform customer service in a dozen specific geographic areas, which together account for the majority of our customer contacts and complaints about the quality of drinking water supply.

We intend to add considerable extra investment over coming years to this programme, which is driven by detailed analysis of customer and operational data and which uses a range of innovative techniques to address asset deficiencies which have arisen over many decades.

Environmental Performance

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

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

We intend to continue our drive to work with local communities to remove these from our network.

Working With Our Customers

Customers are now more directly involved in how we should develop and deliver customer service.

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

Over 2,000 of those who responded to the survey said that they would welcome us staying in touch with them and we are in the process of developing a customer forum which will involve those customers in our decision-making processes on a much more regular basis. This group will sit alongside our customer focus groups, the Customer Challenge Group and our wider engagement programme for customers.

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

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

Colleagues

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

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

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

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

Innovation

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

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

Our Vision For The Future

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

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

N Williams
Company Secretary

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Nelson,
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2 November 2017

Directors' report

The Board has endorsed the effectiveness and commitment of the Directors and recommends each for re-election.

No Director has, or has had, a material financial interest, directly or indirectly, in any contract significant to the Company's business.

Details of the remuneration of individual Directors and of the remuneration strategy approved by the Board are included in the Remuneration Report for the year ended 31 March 2017 contained in Glas Cymru Holdings Cyfyngedig's 2017 Annual Report and Accounts. We publish the Corporate Governance Code followed by the Glas Cymru Holdings Cyfyngedig group, which includes Glas Cymru Anghyfyngedig, on our website. During the year, the Directors considered whether the company was a going concern and, in the company's position as the main operating company in the wider Glas Cymru Holdings Cyfyngedig group, provided a long-term viability statement; this can be found in Glas Cymru Holdings Cyfyngedig's 2017 Annual Report and Accounts.

The Company has in place Directors' and Officers' insurance giving cover against legal action brought against the Directors and an indemnity in circumstances where a Director has not acted fraudulently or dishonestly. The indemnity is a qualifying indemnity for the purpose of the Companies Act and is for the benefit of all Directors. No claims have been made against this policy since the date of the last report.

Employees

At 31 March 2017, the Group had 3,178 employees. Our success is dependent upon our having highly committed and motivated people. We are committed to developing our people to meet the challenges of operating our business in the future. We do not discriminate against applicants or employees on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation ("protected characteristics" in accordance with the Equality Act 2010) or any other personal characteristic. If an employee is disabled or becomes disabled, we consider any reasonable adjustments that would help overcome or minimise the disability. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability. The Group is committed to respecting human rights in respect of colleagues, supply chain and customers and monitors progress in this regard.

Modern Slavery Act 2015

We are committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and any part of our business. To be trusted to do the right thing is one of our core values.

We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking. Our Anti-Slavery Policy sets out Glas Cymru's commitment to acting ethically and with integrity in our supply chain arrangements. As part of our procurement process, any potential contractor or supplier will be required to confirm that they comply with the Modern Slavery Act and, if appointed, we require that they flow down the requirements we place on them to any sub-contractors they use to provide their services to us. Our terms and conditions will include contractual provisions relating to compliance with the Modern Slavery Act. We are implementing these new provisions in all new agreements, upon renewal of key agreements and upon issue of purchase orders. We have written to our existing suppliers to remind them of the requirements of the Act and our policy in this area. To date we have not found any evidence of slavery or human trafficking in our supply chain. Our Human Resources team maintains recruitment polices to protect against slavery and human trafficking in our own operations. Further details and our anti-slavery statement can be found on the following link: **dwrcymru.com/Company-Statements**.

Directors' Statement

The Directors consider that the Annual Report and Accounts, the consolidated financial statements of Glas Cymru, taken as a whole, are fair, balanced and understandable and provide the information necessary for stakeholders to assess the Group's performance, business model and strategy.

In order to arrive at this position, the Board was assisted in the following ways:

- the Annual Report was drafted by senior management and overall co-ordination overseen by the General Counsel and Company Secretary to ensure consistency

- reviews of drafts were undertaken by members of the Executive team and a verification process involving the Group's auditors has been undertaken.

- the final draft was reviewed by the Audit Committee prior to review and approval by the Board.

Financial Performance

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

Operational Items

Glas Cymru incurred total operational costs (excluding infrastructure renewals expenditure on maintaining our underground pipe network, depreciation and exceptional items) of £313 million (2016: £297 million). A number of specific cost increases (higher maintenance contract rates, energy prices and ICT contract transition costs) have been partially offset by efficiency savings, increased income from hydro assets and debt collection improvements.

All water and sewerage companies use a lot of power, particularly for water treatment and pumping processes. The undulating topography across Wales makes this a particular challenge for us. Power costs during 2016-17 were £41 million (2016: £43 million). There remains significant uncertainty over future energy costs, and we have forward purchased a proportion of the estimated power requirements of the business for the three years to March 2020.

Water and sewerage companies are not permitted to disconnect supplies to non-paying domestic customers and cash collection has continued to be challenging. The high priority and increased focus on debt recovery in the Retail business has resulted in further collections improvements during the year, and as a consequence the bad debt charge for the year has fallen to £23 million (2016: £27 million). We are targeting customers who won't pay their bills, as opposed to those who can't pay, and the reduction comes principally from securing charging orders over property owned by customers, with some 2,500 orders secured over nearly £6 million of our customers' debt.

Revenue

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

Exceptional Items

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

Financing Costs

Net interest payable of £141 million (excluding accounting losses on derivatives noted below) was £17 million higher than the previous year. Glas Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt which were entered into when the company was highly geared. While these are effective commercial hedges, they do not qualify for hedge accounting under IAS 39. Changes in market values create volatility in the income statement and fair value losses in 2016-17 amounted to £63 million (2016: gains of £39 million). There is, however, no impact on cash flows: the company intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such losses will revert to zero.

Loss Before Tax

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

The underlying loss before taxation (excluding fair value movements and exceptional items) was £36 million (2016: profit of £38 million).

Taxation

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

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

Our Group Tax Strategy

Our Approach To Risk Management And Governance Arrangements

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

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

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

Our Approach To Tax Planning And Tax Risk

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

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

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

Tax risks are held within the Group’s risk register and are updated regularly. Our key tax risks principally arise from business developments and changes to tax legislation which may result in unforeseen tax implications. Where possible we seek to mitigate tax risk so that residual risk is minimal.

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

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

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

Our Relationship With HMRC

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

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

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

Tax Reliefs And Incentives

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

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

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

Transparency

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

Contribution

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

Pension Funding

The statement of comprehensive income reports defined benefit pension scheme actuarial losses of £43 million (2016: £25 million) and the balance sheet liability as at 31 March 2017 was £95 million (2016: £57 million). This valuation is on an IAS 19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme, as at 31 March 2016, projected a deficit, recoverable by payments of £7 million per annum until 2019 and then £3 million per annum until 2030. Exposure to any significant additional future liabilities is mitigated by the closure of most sections of the scheme with effect from 1 April 2017.

Financial Performance

The consolidated balance sheet shows net assets of £1,086 million at 31 March 2017 (2016: £1,082 million). Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £1,563 million (2016: assets of £1,496 million).

Going Concern

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2017 have been prepared on the going concern basis.

Capital Investment

Glas Cymru’s strong financial position has been built up over the last 16 years, and provides a stable base from which it can respond positively to the challenges of economic uncertainty and drive forward its continuing large capital programme. Glas Cymru works with an alliance of partners to deliver the capital investment programme at the best value for money for customers. Total capital expenditure during the year (including infrastructure renewals expenditure) was £350 million (2016: £262 million). The increase is mainly due to a temporary slowdown in our capital construction programme during 2015-16 at the start of the current five year regulatory period (AMP6). We invested around £1.5 billion over the five year period from 2010 to 2015 in our AMP5 investment programme which brought sustained improvements in customer service, drinking water quality and the environment. The Group plans to invest at least a further £1.7 billion over the course of the current five year regulatory period (2015-2020), our largest ever investment programme.

Credit Rating And Interest Rate Management

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

As at 31 March 2017, approximately 65% of gross debt was index-linked via bonds and derivatives (2016: 65%), with the remainder at fixed interest rates. The expected maturity of the outstanding fixed-rate and index linked bonds ranges from 2021 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

Directors' report (continued)

Gearing Policy

Glas Cymru's gearing to RCV policy is to target gearing at or around 60% and interest cover ratios commensurate with maintaining our sector leading 'A' grade credit ratings. This should help us to maintain our low risk profile giving the Group access to low cost financing throughout AMP6 and beyond.

Liquidity And Financial Reserves

Glas Cymru aims to offer a secure, low risk investment to investors. By building and maintaining a strong financial position, we intend to keep our borrowing costs low, enabling us to finance future investment efficiently. On Glas Cymru's acquisition of Welsh Water in May 2001, gearing (net debt/Regulatory Capital Value) stood at 93%. Since then, the financial position has improved steadily. Gearing to RCV has fallen to 56% by 31 March 2017 (2016: 57%) and 'customer reserves' (RCV less net debt) were £2.3 billion. As at 31 March 2017, the Group had available total liquidity of £525 million, including cash balances of £65 million. We are substantially pre-funded through to 2019-20 and have a further £150 million of undrawn revolving credit facilities.

Events After The Financial Year End

There have been no post balance sheet events.

Occupational Health And Safety

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

Innovation

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

Political Donations

It is Board policy not to make donations to political parties or to incur political expenditure. During 2016-17 a payment of £18,270 was made to the StepChange debt charity, to support the work the charity does in providing debt advice to our customers. We are disclosing this payment as StepChange also lobbies government for policy change on debt issues. Other than this, no donations or payments were made which are required to be disclosed under section 366 of the Companies Act 2006.

Greenhouse Gases

The release of greenhouse gases (GHG) has an impact on climate change which, either directly or indirectly, presents considerable risks both to the business and the environment. The Group seeks to reduce its releases of greenhouse gases where possible and measures this through the calculation of our operational carbon emissions. These emissions are dominated by grid supplied energy (electricity and gas) accounting for 82% of the total. In 2016-17 our operational carbon emissions fell 8% to 212 ktCO2e from 230 ktCO2e in 2015-16.

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

Welsh Language Scheme

We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an effective standard of service in both languages. Our Welsh Language Scheme is an approved scheme under the provisions of the Welsh Language Act 1993. We are working closely with the Welsh Language Commissioner's office to prepare for the implementation of the provisions of the Welsh Language (Wales) Measure 2011. This report is available in Welsh.

Annual Performance Report

Condition F of the Instrument of Appointment, under which Welsh Water operates, requires that we publish additional financial information as an 'appointed business'. A copy of this information is published on our website.

Our Wider Impact

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

Supporting Education

We have a part to play in helping our future customers understand how they can help and protect the environment. Indeed, investing in education and engaging with the communities we serve is vital to achieving our vision. This is why we have four Discovery Centres (Elan Valley near Rhayader, Cilfynydd near Pontypridd, Cog Moors near Dinas Powys and Brenig in the Denbighshire moors), visited by over 14,000 children every year. They offer a range of fun, practical activities and programmes so children and families can experience the world of water at first hand.

Due to the success of our centres, we now implement an outreach programme where our teachers regularly visit primary and secondary schools to deliver workshops on the behavioural change campaigns we undertake involving water efficiency (Love Dŵr) and pollution (Let's Stop the Block). Around 41,000 pupils a year benefit from this programme.

WaterAid

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

Being A Good Neighbour

We know that our activities, including maintaining and repairing our assets and networks, can cause disturbance or disruption to local communities. We plan every scheme thoroughly to try and ensure that this is minimised and this includes working with our construction partners, local authorities, highways agency, households and businesses to find the least intrusive solution. Where our activities can potentially have a negative economic impact (for example roadworks preventing or reducing footfall to retailers), we also look at how we can offer support through compensatory measures. We continue to be determined to play our part in a sustainable and more prosperous country through a socially and environmentally responsible approach to our day-to-day activities, and by helping the communities weserve.

Community Investment

As one of the biggest companies in Wales with a large workforce and a major, multi-billion pound investment programme, the way we act has a profound influence on the social, economic and environmental wellbeing of Wales and the English regions we serve. We are therefore pleased that acting in an environmentally sustainable, economically beneficial and socially responsible manner remains at the heart of our activities.

Access And Recreation

We are the custodian of a national asset in Wales — some 40,000 hectares (99,000 acres) of land that is rich in scenery and biodiversity. This land also offers significant opportunity for public recreation with around a million visitors a year visiting one of our 17 major reservoir sites where we provide a range of sporting, recreational and leisure facilities.

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

Working With Others

To help us provide our services and safeguard the environment, we have continued to collaborate with key partners and community organisations in the delivery of a wide range of initiatives.

These have involved the following:

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

Annual General Meeting

The 2017 AGM for Glas Cymru Holdings Cyfyngedig (Glas Cymru Anghyfyngedig's parent company) was held on Friday 7 July 2017 at The Quay Hotel, Deganwy. The business of the AGM included:

- receiving the Directors' Report for Glas Cymru Holdings Cyfyngedig;
- receiving the Financial Statements for the year ended 31 March 2017 and the approval of the Remuneration Report for the year ended 31 March 2017 and approval of the Remuneration Policy;
- the re-election of all Directors;
- a resolution to authorise the Group to make donations to EU political organisations and to incur EU political expenditure up to defined limits;
- resolutions to appoint the auditors and to authorise the Audit Committee to fix their fees.

These resolutions are all matters of ordinary business. There was no special business.

Further information in respect of all resolutions was provided in the Notice of 2017 AGM sent to the Members of Glas Cymru Holdings Cyfyngedig.

N Williams
Company Secretary

Registered office:
Pentwyn Road,
Nelson,
Treharris,
Mid Glamorgan,
CF46 6LY

2 November 2017

Statement of Directors’ responsibilities in respect of the Strategic Report, Directors’ Report and the financial statements

The directors of Glas Cymru Anghyfyngedig (‘the directors’) have accepted responsibility for the preparation of these non-statutory accounts for the year ended 31 March 2017 which are intended by them to give a true and fair view of the state of affairs of the company and of the profit or loss for that period. They have decided to prepare the non-statutory accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and as if applicable UK law applied to them.

In preparing these non-statutory accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU*;* and
- prepared the non-statutory accounts on the going concern basis as they believe that the company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to Glas Cymru Anghyfyngedig

We have audited the non-statutory accounts of Glas Cymru Anghyfyngedig for the year ended 31 March 2017 set out on pages 15 to 54. These non-statutory accounts have been prepared for the reasons set out in note 1 to the non-statutory accounts and on the basis of the financial reporting framework of International Financial Reporting Standards (IFRSs) as adopted by the EU and as if applicable UK law applied to them.

Our report has been prepared for the Company solely in response to the Company's request for an auditor's report on the non-statutory consolidated accounts. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 25 October 2017 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the non-statutory accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on non-statutory accounts

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the Companies Act 2006, as if those requirements were to apply.

James Ledward
for and on behalf of KPMG LLP
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

7 November 2017

Consolidated income statement for the year ended 31 March 2017

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

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

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The profit of the parent company for the year to 31 March 2017 was £30.2m (2016: £nil)

Consolidated statement of comprehensive income for the year ended 31 March 2017

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

Consolidated statement of changes in equity for the year ended 31 March 2017

	Revaluation reserve	Retained earnings	**Total**
	£m	£m	**£m**
At 1 April 2015	-	(6.4)	**(6.4)**
Profit for the year	-	85.9	**85.9**
Actuarial loss net of tax	-	(20.9)	**(20.9)**
Revaluation net of tax	1,023.2	-	**1,023.2**
Transfer to retained earnings	(45.3)	45.3	**-**
At 31 March 2016	977.9	103.9	**1,081.8**
Loss for the year	-	(70.0)	**(70.0)**
Actuarial loss net of tax	-	(37.4)	**(37.4)**
Dividends paid	-	(30.2)	**(30.2)**
Revaluation net of tax	141.5	-	**141.5**
Transfer to retained earnings	(50.3)	50.3	**-**
At 31 March 2017	1,069.1	16.6	**1,085.7**

There were no changes in reserves of the parent company during the year (2016: none).

Consolidated balance sheet as at 31 March 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Property, plant and equipment	9	**5,065.2**	4,841.3
Intangible assets	10	**119.5**	105.7
Financial assets:			
- derivative financial instruments	16	**2.2**	0.2
		5,186.9	4,947.2
Current assets			
Trade and other receivables	12	**563.2**	544.2
Inventories		**2.8**	2.1
Financial assets:			
- derivative financial instruments	16	**4.0**	3.6
Cash and cash equivalents	13	**70.4**	135.1
		640.4	685.0
Total assets		**5,827.3**	5,632.2
Liabilities			
Current liabilities			
Trade and other payables	14	**(556.5)**	(527.4)
Financial liabilities:			
- borrowings	15	**(39.3)**	(73.5)
- derivative financial instruments	16	**(35.2)**	(24.0)
Provisions for other liabilities and charges	18	**(1.2)**	(3.2)
		(632.2)	(628.1)
Net current assets		**8.2**	56.9
Non-current liabilities			
Trade and other payables	14	**(204.6)**	(159.2)
Financial liabilities:			
- borrowings	15	**(2,938.8)**	(2,869.7)
- derivative financial instruments	16	**(448.0)**	(393.8)
Post employment benefits	22	**(95.2)**	(56.5)
Provisions for other liabilities and charges	18	**(9.6)**	(11.3)
		(3,696.2)	(3,490.5)
Net assets before deferred tax		**1,498.9**	1,513.6
Deferred tax - net	7	**(413.2)**	(431.8)
Net assets		**1,085.7**	1,081.8
Equity			
Revaluation reserve		**1,069.1**	977.9
Retained earnings		**16.6**	103.9
Reserves		**1,085.7**	1,081.8

The financial statements on pages 15 to 54 were approved by the Board of Directors on 2 November 2017 and were signed on its behalf by:

C A Jones
Chief Executive Officer

P J Bridgewater
Finance Director

Parent company balance sheet as at 31 March 2017

	2017	2016
	£m	£m
Assets		
Non-current assets		
Trade and other receivables	**3.5**	3.5
	3.5	3.5
Liabilities		
Current liabilities		
Trade and other payables	**(3.5)**	(3.5)
	(3.5)	(3.5)
Net assets	**-**	-
Reserves		
Retained earnings	**-**	-
Total reserves	**-**	-

Parent company statement of changes in reserves for the year ended 31 March 2017

	2017 Retained earnings £m	2016 Retained earnings £m
Balance at 1 April	**-**	-
Profit for the period	**30.2**	-
Dividends paid	**(30.2)**	-
Balance at 31 March	**-**	-

The financial statements on pages 15 to 54 were approved by the Board of Directors on 2 November 2017 and were signed on its behalf by:

C A Jones
Chief Executive Officer

P J Bridgewater
Finance Director

Consolidated cash flow statement for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	19a	**336.9**	368.9
Interest paid	19b	**(124.6)**	(128.9)
Income tax received		**1.1**	0.2
Net cash generated from operating activities		**213.4**	240.2
Cash flows from investing activities			
Interest received		**3.8**	5.6
Purchase of property, plant and equipment		**(237.7)**	(195.0)
Purchase of intangible assets		**(33.5)**	(25.0)
Grants and contributions received		**16.1**	16.7
Net cash outflow from investing activities		**(251.3)**	(197.7)
Net cash flow before financing activities		**(37.9)**	42.5
Cash flows from financing activities			
Long term loans received		**70.0**	-
Bank account movement		**(36.9)**	(80.4)
Dividend paid to immediate parent company		**(30.2)**	
Term loan repayments		**(20.3)**	(46.6)
Finance lease principal payments		**(9.3)**	(51.4)
Other loan repayments		**(0.1)**	(0.2)
Net cash flow from financing activities		**(26.8)**	(178.6)
Decrease in cash and cash equivalents		**(64.7)**	(136.1)
Cash and cash equivalents at 1 April		**135.1**	271.2
Cash and cash equivalents at 31 March		**70.4**	135.1

Parent company cash flow statement for the year ended 31 March 2017

	2017 £m	2016 £m
Cash flow from operating activity	-	-
Cash flow from investing activity		
Dividend received from subsidiary	**30.2**	-
Net cash flow from investing activity	**30.2**	-
Net cash flow before financing activities	**30.2**	-
Cash flow from financing activities		
Dividends paid to immediate parent company	**(30.2)**	-
Net cash flow from financing activity	**(30.2)**	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at 1 April	-	-
Cash and cash equivalents at 31 March	-	-

Notes to the financial statements

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2017

Glas Cymru Anghyfyngedig ('the company') is a private company incorporated, domiciled and registered in England and Wales. The registered number is 3975719 and the registered address is Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

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

Basis of Preparation
These non-statutory consolidated financial statements of Glas Cymru Anghyfyngedig have been prepared for the purpose of inclusion in the group's bond prospectus. The statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

References to 'Glas Cymru' in these financial statements relate to the Glas Cymru Anghyfyngedig group and not the larger group headed by the ultimate parent company, Glas Cymru Holdings Cyfyngedig.

Going concern
As described in the financing risk management section the Group meets its day to day working capital requirement through its bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within its current facilities. After making enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

The preparation of financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 27.

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

Changes in accounting policies and disclosures
The following new standards, interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2017 and have not been adopted early:

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

1. Accounting policies, financing risk management and accounting estimates (continued)

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

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

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

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

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

Property, plant and equipment comprise:

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

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

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

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.

1. Accounting policies, financing risk management and accounting estimates (continued)

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
Plant, equipment and computer hardware	3 – 40 years

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

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction and production of qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Intangible assets

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

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

Leased assets

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

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

Grants and customer contributions

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

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

1. Accounting policies, financing risk management and accounting estimates (continued)

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

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

Cash and cash equivalents
Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition and typically include cash in hand and deposits with banks or other financial institutions.

Pension costs

i) Defined benefit scheme

The Group operates a defined benefit scheme which is funded by both employer and employee 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 liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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

Past-service costs are recognised immediately in income.

ii) Defined contribution scheme

The Group 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.

1. Accounting policies, financing risk management and accounting estimates (continued)

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

Trade payables are obligations to pay for goods and services acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year, or in the normal operating cycle of the business.

Derivative instruments utilised by the Group are interest rate, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the Group. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2017, none of the Group's derivatives qualified for hedge accounting under IAS 39 (2016: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Deferred taxation
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax has been recognised in relation to rolled over gains except for where reinvestment has been made in certain operational assets which the company plans to use until the end of their useful

economic life. The company anticipates that these assets will then be scrapped for negligible proceeds, or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Provisions
Provisions for restructuring costs, dilapidations and uninsured losses are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. Restructuring

provisions comprise employee severance and pension fund top-up costs. Where the Group receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

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

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

1. Accounting policies, financing risk management and accounting estimates (continued)

Use of adjusted measures
The Group presents an underlying profit before tax measure. This is used for internal performance analysis as management considers that this better represents the underlying performance of the business. Adjustments are made for exceptional items and fair value movements on derivatives.

Financing risk management objectives and policies

Treasury activities are managed within a formal set of treasury policies and objectives, which is reviewed regularly and approved by the Board. The policies specifically prohibit any transactions of a speculative nature and the use of complex financial instruments. Certain detailed policies for managing interest rate, currency and inflation risk and that for managing liquidity risk are approved by the Board and may be changed only with the consent of Dŵr Cymru Cyfyngedig's Security Trustee. The risk is mitigated further by limiting exposure to any one counterparty. The Group uses financial instruments to raise finance and manage operational risk; these instruments principally include listed bonds, finance leases, bank loan facilities and derivatives.

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

In practice, in the current economic environment the Group has adopted a more prudent approach to cash management and timed deposits are placed for a maximum of one month with banks subject to minimum long-term rating criteria of A-/A3/A-. Bond and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. The maximum cash investment with a single counterparty was £69m (2016: £29m).

Interest rate risk
The Group hedges at least 85% of its total outstanding financial liabilities, including finance leases, into either index-linked or fixed rate obligations. For this purpose floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the Group to inflation risk. Therefore, subject to market constraints and Board approval, the Group may seek to raise new debt through index-linked instruments or enter into appropriate hedging transactions.

Financing risk management objectives and policies (continued)

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £2,978m as at 31 March 2017 (2016: £2,943m) none related to floating rate debt (2016: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2017, 100% (2016: 100%) of the Group's gross debt was at fixed or index-linked ('RPI') rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £477m in the balance sheet at 31 March 2017 (2016: £414m) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.

Power price hedges
The company enters into contracts which fix the price of a proportion of future power purchases in order to reduce the impact of power price variances. These contracts qualify as financial instruments and are included in the financial statements.

Refinancing risk
Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The Group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £2,923m (2016: £2,853m) can fall due in any 24 month period.

Liquidity risk
The Group maintains committed banking facilities in order to provide flexibility in the management of its liquidity. Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months. As at 31 March 2017, the Group had committed undrawn borrowing facilities of £460m (2016: £280m) and cash and cash equivalents (excluding debt service payments account) of £65m (2016: £80m).

In 2014, the Group agreed a loan facility of £230m with the European Investment Bank. £160m of the facility was drawn during 2015. The remaining facility of £70m was drawn on 17 May 2016. The Group also has an undrawn loan facility of £60m with KfW-IPEX Bank which was drawn on 5 May 2017. The loan will start to amortise from May 2020 and will be repayable in six-monthly instalments ending at November 2025. The Group agreed another loan facility in January 2017 of £250m with the European Investment Bank, all of which is undrawn. The facility is available to be drawn until January 2019.

The Group has £150m of undrawn revolving credit facilities; £130m of these will expire in 2020 and the remainder are available until 2019 with an option to extend (subject to the consent of the provider) for a further year to 2020. There is also a £10m overdraft facility (2016: £10m) which is renewable on an annual basis. As at 31 March 2017 there was also a special liquidity facility of £135m (2016: £135m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the Group's debt financing covenants. The facility is renewable on an annual basis.

Capital risk
The Group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, the Group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value (RCV) as linked to movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2017 regulatory gearing was 56%(2016: 57%). In respect of the risks detailed above, further quantitative disclosures are provided in note 17.

Critical accounting estimates

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

Critical accounting estimates (continued)

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability of a failure to recover amounts when they fall into arrears. The probability of failing to recover is determined by past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 1%, the provision for impairment would increase or decrease by £1.0 m (2016: £0.8.m).

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability.Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2017 would increase or reduce by £9.9m (2016: £7.7m).

Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2017 was £68.8m (2016: £64.9m). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.5m (2016: £0.7m).

Fair value estimation

In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Group are categorised into different levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability not based on observable market data.

All of the Group’s trading and treasury derivatives are categorised at Level 2 and as at 31 March 2017 were valued as follows:

Critical accounting estimates (continued)

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

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

Trading derivatives relate to power price hedges. Treasury derivatives relate to interest rate swap contracts and are recorded on the balance sheet at fair value. These have all been assessed as Level 2.

The power price hedging contracts have been fair valued using rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

Level 2 debt investments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

There were no transfers between levels 1 and 2 during the year.

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

2. Segmental information

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

3. (Loss)/profit before taxation

The following items have been included in arriving at the (loss)/profit before taxation:

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

Notes to the financial statements (continued)

3. (Loss)/profit before taxation (continued)

Services provided by the company's auditors

During the year Glas Cymru Anghyfyngedig incurred the following audit fees, all of which were paid by the company:

	2017	2016
Audit fees	**£000**	£000
Audit of Glas Cymru Anghyfyngedig Annual report and non-statutory financial statements for the year ended 31 March 2017	**26**	10

Further details of the total statutory audit fees and non audit fees paid to the company's auditors are included within the Glas Cymru Holdings Cyfyngedig report and accounts for 31 March 2017.

4. Exceptional items

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

5. Financing costs

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

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

b) Fair value 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 company's interest rate and currency swaps are fair valued at each balance sheet date with the movement (net loss or gain) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 16 in respect of derivative financial instruments recognised in the balance sheet.)

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

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

6. Taxation

Analysis of credit in the year

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

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

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

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

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

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

	Group	
	2017	2016
	£m	£m
(Loss)/profit before tax	**(98.9)**	77.0
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 20% (2016: 20%)	**(19.8)**	15.4
Effect of:		
- Adjustments in respect of prior years	**1.9**	(0.2)
- Other permanent differences	**0.7**	0.1
- Effect of pension payments in excess of service charge	**(1.0)**	(0.1)
- Effect of tax rate change on closing deferred tax from 18% to17%	**(12.4)**	(24.1)
- Difference in standard rate of corporation tax (20%) and rate used for deferred tax (18%)	**1.7**	-
Total taxation credit	**(28.9)**	(8.9)

7. Deferred tax

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

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

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

Analysis of amounts of deferred tax (credited)/charged to the statement of comprehensive income and revaluation reserve:

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

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

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

The company has no deferred tax balance (2016: £nil).

8. Revaluation reserve

The economic value of the company's water and sewerage business is derived from the Regulatory Capital Value (RCV) set by Ofwat during its five yearly price reviews. The company considers that a fair value approach to valuing its assets better reflects the underlying value of the assets than historical cost accounting which understates the assets' current value in use.

As at 31 March 2017 the total value of tangible and intangible fixed assets has been revalued to the company's 'shadow RCV', being the 31 March 2017 RCV published by Ofwat in its PR14 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

Revaluation reserve movement	**2017**	2016
	£m	£m
Revaluation reserve as at 1 April	**977.9**	-
Revaluation of assets to RCV	**156.8**	1,247.8
Depreciation charge on revalued assets	**(61.3)**	(55.2)
	95.5	1,192.6
Deferred tax on revaluation	**(15.3)**	(224.6)
Deferred tax on depreciation charge	**11.0**	9.9
	(4.3)	(214.7)
Revaluation reserve as at 31 March	**1,069.1**	977.9

9. Property, plant and equipment

Group

Current year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2016	41.6	2,090.1	3,681.9	262.4	6,076.0
Revaluation	-	24.3	-	-	24.3
Additions net of grants and contributions	0.1	122.1	184.2	2.1	308.5
Disposal	-	-	-	(0.4)	(0.4)
At 31 March 2017	**41.7**	**2,236.5**	**3,866.1**	**264.1**	**6,408.4**
Accumulated depreciation					
At 1 April 2016	19.8	-	955.2	259.7	1,234.7
Revaluation	-	(43.8)	(88.7)	-	(132.5)
Charge for the year	0.8	43.8	192.7	4.1	241.4
Released on disposal	-	-	-	(0.4)	(0.4)
At 31 March 2017	**20.6**	**-**	**1,059.2**	**263.4**	**1,343.2**
Net book value					
At 31 March 2017	**21.1**	**2,236.5**	**2,806.9**	**0.7**	**5,065.2**
At 31 March 2017 (historic cost basis)	***21.1***	***1,662.8***	***2,092.4***	***0.7***	***3,777.0***

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

The net book value of property, plant and equipment includes £42.9m of borrowing costs capitalised in accordance with IAS 23 (2016: £35.7), of which £8.4m were additions in the year (2016: £3.4m).

9. Property, plant and equipment (continued)

Prior year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2015	37.5	1,789.7	3,549.9	257.9	5,635.0
Revaluation	-	195.4	-	-	195.4
Additions net of grants and contributions	4.1	105.0	132.0	4.7	245.8
Disposals	-	-	-	(0.2)	(0.2)
At 31 March 2016	41.6	2,090.1	3,681.9	262.4	6,076.0
Accumulated depreciation					
At 1 April 2015	19.1	290.4	1,494.0	253.1	2,056.6
Revaluation	-	(330.5)	(721.9)	-	(1,052.4)
Charge for the year	0.7	40.1	183.1	6.8	230.7
Released on Disposal	-	-	-	(0.2)	(0.2)
At 31 March 2016	19.8	-	955.2	259.7	1,234.7
Net book value					
At 31 March 2016	21.8	2,090.1	2,726.7	2.7	4,841.3
At 31 March 2016 *(historic cost basis)*	21.8	1,574.0	2,050.2	2.7	3,648.7

Assets held under finance leases

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

Prior year	Infrastructure assets £m	Operational assets £m	Total £m
At 31 March 2016			
Cost	611.8	117.7	729.5
Accumulated depreciation	(105.6)	(81.5)	(187.1)
Net book value	506.2	36.2	542.4

10. Intangible assets

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

Prior year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2015	216.3	(115.7)	100.6
Additions/(charge) for year	25.0	(19.9)	5.1
At 31 March 2016	241.3	(135.6)	105.7

Intangible fixed assets comprise computer software and related system developments.

The net book value of intangible assets includes £20.0m in respect of assets in the course of construction (2016: £20.2m).

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

The parent company owns no intangible assets

11. Investments

Group

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

	Principal activities	Country of incorporation	Holding
WRC P.L.C.	Water research	England and Wales	"A" Ordinary Shares of £1

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

	Principal activities	Tax Residency	Country of incorporation	Holding
Dŵr Cymru (Holdings) Limited	Holding company	UK resident	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	UK resident	England and Wales	100%
Dŵr Cymru (Financing) Limited	Raising finance	UK resident	Cayman Islands	100%

Welsh Water Utilities Finance plc, Hydro 1 Limited and Dŵr Cymru Customer Services Limited were liquidated during the year.

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

12. Trade and other receivables

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

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

As at 31 March 2017, based on a review of historical collection rates it was considered that £95.8m (£2016: £85.3m) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the supply of measured and unmeasured water. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of these receivables was as follows:

Current year Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
Billings in advance	**370.2**	**-**	**370.2**
Under one month	**25.4**	**(12.9)**	**12.5**
Between one and six months	**33.5**	**(8.8)**	**24.7**
Between six months and one year	**33.3**	**(12.5)**	**20.8**
Between one and two years	**39.3**	**(25.1)**	**14.2**
Between two and three years	**34.4**	**(22.0)**	**12.4**
Over three years	**20.5**	**(14.5)**	**6.0**
	556.6	**(95.8)**	**460.8**

Prior year Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
Billings in advance	373.7	-	373.7
Under one month	18.7	(8.0)	10.7
Between one and six months	38.9	(17.3)	21.6
Between six months and one year	30.6	(6.1)	24.5
Between one and two years	46.8	(31.7)	15.1
Between two and three years	26.1	(20.0)	6.1
Over three years	2.2	(2.2)	-
	537.0	(85.3)	451.7

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

12. Trade and other receivables (continued)

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

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

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

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

The total charge to the income statement of £23.3m (2016: £27.0m) includes the bad debt element of local authority collection charges where local authorities collect debt on the Company's behalf (2017: £0.5m, 2016: £0.6m)

13. Cash and cash equivalents

	Group	
	2017	2016
	£m	£m
Cash at bank and in hand	**6.4**	47.7
Short-term deposits	**64.0**	87.4
	70.4	135.1

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

14. Trade and other payables

	2017	2016
	£m	£m
Current		
Trade payables	**44.6**	37.1
Capital payables	**65.8**	41.3
Other taxation and social security	**4.3**	4.0
Accruals and deferred income	**441.8**	445.0
	556.5	527.4

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

15. Financial liabilities – borrowings

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

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

The parent company has no borrowings.

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

The obligations of DCC are guaranteed by 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 £989m (2016: £979m) benefit from a guarantee from Assured Guaranty. Assured Guaranty's credit rating has been reduced to Baa2 and A by Moody's and S&P respectively, and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A2/A/A from Moody's, S&P and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty, and is the same as the credit ratings of the Group's Class B bonds of £1,023.3m (2016: £1,008.4m).

16. Derivative financial instruments

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges under IAS 39 and movements in their fair value are taken to the Income Statement (see note 5b). The fair values of all derivative financial instruments held by the Group are the result of mark-to-market pricing by the issuing counterparties and as such fall within level 2 of the fair value hierarchy set out in IFRS 7.

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

Group - 2016	**Fair values**	
	Assets	**Liabilities**
	£m	**£m**
Current		
Index-linked swaps	3.6	(14.2)
Interest rate swaps	-	(8.8))
Power hedging swaps	-	(1.0)
	3.6	(24.0)
Non-current		
Index-linked swaps	-	(303.2)
Interest rate swaps	-	(82.2)
Power hedging swaps	0.2	(8.4)
	0.2	(393.8)
Total	3.8	(417.8)

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

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

16. Derivative financial instruments (continued)

Interest rate swaps

At 31 March 2017 an interest rate swap fixes the interest rate on £192m (2016: £192m) of floating liabilities held by the Group. The maturity date of the swap is 31 March 2031 and the quarterly fixed interest rate is 5.67%.

Index-linked swaps

Finance lease swaps

The index-linked swaps have the effect of index-linking the interest rate on £381m (2016: £382m) of finance lease liabilities by reference to the Retail Prices Index ("RPI").

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2017 is £400m (2016: £400m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2017. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

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

Notional amount	£400m amortising (2016: £400m amortising)
Average swap maturity	18 years (2016: 19 years)
Average interest rate	1.35% fixed plus RPI (2016: 1.35% fixed plus RPI)

Bond swap

The index-linked swap have the effect of index-linking the interest rate on £100m of fixed rate bonds by reference to the RPI.

The principal terms are as follows:

Indexed notional amount	£135m (2016: £133m)
Swap maturity	40 years (2016: 41 years)
Interest rate	1.35% indexed by RPI (2016: 1.35% indexed by RPI)

17. Financial risk management

The policies of the company in respect of financial risk management are included in the accounting policies note on page (). The numerical financial instrument disclosures as required by IFRS 7 are set out below.

a) Interest rate risk
The effective interest rates at the balance sheet dates were as follows:

	2017	2016
Assets:		
Cash and cash equivalents	0.2%	0.5%
Liabilities:		
Bonds	4.3%	4.4%
European Investment Bank loans	0.5%	0.7%
Local authority loans	5.0%	4.2%
Finance lease obligations	2.0%	1.0%

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

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 17. They also exclude the indexation charge applicable to the index-linked bonds.

b) Liquidity risk

Group - 2017	**Within 1 year**	**1 - 2 years**	**2 - 5 years**	**> 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Assets:					
Cash and cash equivalents	70.4	-	-	-	70.4
Trade and other receivables	563.3	-	-	-	563.3
	633.7	**-**	**-**	**-**	**633.7**
Liabilities:					
Cash and cash equivalents	5.9	-	-	-	5.9
Bonds	0.7	0.7	327.1	1,690.2	2,018.7
European Investment Bank loans	21.6	21.6	163.0	255.5	461.7
Local authority loans	0.1	0.1	0.4	-	0.6
Finance lease obligations	10.5	11.9	45.5	378.6	446.5
Trade and other payables	556.5	1.8	4.9	197.9	761.1
Future interest payable	112.9	113.5	335.6	917.5	1,479.5
	708.2	**149.6**	**876.5**	**3,439.7**	**5,174.0**

17. Financial risk management (continued)

Liquidity risk Group – 2016	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	135.1	-	-	-	135.1
Trade and other receivables	544.2	-	-	-	544.2
	679.3	**-**	**-**	**-**	**679.3**
Liabilities:					
Cash and cash equivalents	42.8	-	-	-	42.8
Bonds	0.6	0.7	327.1	1,666.2	1,994.6
European Investment Bank loans	20.3	21.6	95.9	268.6	406.4
Local authority loans	0.1	0.1	0.4	0.1	0.7
Finance lease obligations	9.3	10.5	40.5	395.5	455.8
Trade and other payables	527.4	1.8	4.9	152.5	686.6
Future interest payable	105.8	107.3	304.7	912.3	1,430.1
	706.3	**142.0**	**773.5**	**3,395.2**	**5,017.0**

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

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

c) Fair values

The fair values of the Group's derivative financial instruments are set out in note 16. The following table summarises the fair value and book value of the Group's bonds.

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

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

17. Financial risk management (continued)

d) Borrowing facilities

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

	2017	2016
	£m	£m
Expiring in less than 1 year:		
- term loan facility	**60.0**	70.0
Expiring in more than 1 year:		
- revolving credit facilities	**150.0**	150.0
- term loan facility	**250.0**	60.0
	400.0	210.0
	460.0	280.0

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

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

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

The Group also has £150m of undrawn revolving credit facilities, £130m of which will expire during 2020. The remaining £20m is available until 2019 with an option to extend (subject to the consent of the providers) for a further year to 2020. Dŵr Cymru Cyfyngedig also has a £10m overdraft facility renewable on an annual basis.

At 31 March 2017 Dŵr Cymru (Financing) Limited also had a special liquidity facility of £135m (2016: £135m) which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through operating cash flow of the Group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

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

e) Capital risk management

Gearing ratios	**2017**	2016
	£m	£m
Total borrowings	**(2,978)**	(2,943)
Less: cash and cash equivalents	**70**	135
Net debt	**(2,908)**	(2,808)
Regulatory capital value (RCV)	**5,217**	4,983
Total capital	**2,309**	2,175
Less: unamortised bond costs and swap indexation	**(39)**	(38)
Total capital per bond covenants	**2,270**	2,137
Gearing ratio	**56%**	57%

As set out on page 27, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt within its whole business securitisation to the Ofwat-determined RCV.

18. Provisions

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

The parent company has no provisions at 31 March 2017.

Restructuring provision
This provides for the cost of restructuring associated with a reduction in the headcount by around 360.

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

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

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

19. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group	
	2017	2016
	£m	£m
Operating profit	**104.7**	160.8
Adjustments for:		
- Depreciation and amortisation	**256.6**	247.1
- Changes in working capital:		
Increase in trade and other receivables	**(20.3)**	(11.8)
Decrease in inventories	**(0.7)**	(0.1)
Increase/(decrease) in trade and other payables	**6.2**	(12.4)
Pension contributions above service cost	**(6.2)**	(1.6)
Decrease in provisions	**(3.4)**	(13.1)
	(24.4)	(39.0)
Cash generated from operations	**336.9**	368.9

b) Interest paid

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

20. Analysis and reconciliation of net debt

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

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

	Group	
	2017	2016
	£m	£m
Cash and cash equivalents	**70.4**	135.1
Debt due after one year	**(2,454.6)**	(2,376.4)
Debt due within one year	**(27.9)**	(63.4)
Finance leases	**(446.5)**	(455.8)
Accrued interest	**(49.1)**	(47.6)
	(2,978.1)	(2,943.2)
Net debt	**(2,907.7)**	(2,808.1)

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

	Group	
	2017	2016
	£m	£m
Net debt at start of year	**(2,808.1)**	(2,878.9)
Movement in net cash	**(64.7)**	(136.1)
Movement in debt arising from cash flows	**(3.4)**	178.6
Movement in net debt arising from cash flows	**(68.1)**	42.5
Movement in accrued interest	**(1.5)**	11.2
Indexation of index-linked debt	**(30.5)**	(14.5)
Bond indexation adjustment	**-**	31.2
Other non-cash movements	**0.5**	0.4
Movement in net debt during the year	**(99.6)**	70.8
Net debt at end of year	**(2,907.7)**	(2,808.1)

21. Employees and directors

Staff costs for the Group during the year

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

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

Average monthly number of people employed by the Group (including executive Directors)	**2017 Number**	2016 Number
Regulated water and sewerage activities	**3,111**	3,007

The Board delegates certain of the company's strategic and operational activities to the Dŵr Cymru Executive, a senior management group comprising both executive directors and employees. Total remuneration of these key personnel was as follows:

	2017	2016
	£m	£m
Executive Directors	**1.9**	1.9
Other key personnel	**1.6**	1.7
	3.5	3.6

For further information, see the Remuneration Report in the parent company Glas Cymru Holdings Cyfyngedig's Report and Accounts for the year ended 31 March 2017.

The directors are employed by other companies in the group and consider their duties to this company incidental to their other activities within the group. Glas Cymru Anghyfyngedig had no employees during the period other than the directors.

22. Pension commitments

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

The Welsh Water Pension Scheme was closed to new members from 31 December 2005 and closed for future accruals from 1 April 2017. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

Defined benefit scheme
A full actuarial valuation of the scheme was undertaken as at 31 March 2016 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2017 and the principal assumptions made by the actuaries were:

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

EFRBS
During 2011, the Company put arrangements in place via an Employer Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2017, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

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

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

22. Pension commitments (continued)

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

The Welsh Water Pension Scheme was closed to new members from 31 December 2005 and closed for future accruals from 1 April 2017. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

A full actuarial valuation of the scheme was undertaken as at 31 March 2016 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated at 31 March 2017 and the principal assumptions made by the actuaries were:

	2017	2016
Discount rate	**2.8%**	3.6%
Inflation assumption	**3.2%**	3.0%
Rate of increase in pensionable salaries	**3.2%**	3.0%
Rate of increase in pensions in payment	**3.1%**	2.9%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	**87.0 yrs**	87.0 yrs
- Current pensioners aged 65 - females	**89.0 yrs**	88.9 yrs
- Future pensioners aged 65 (currently aged 45) - males	**83.3 yrs**	88.2 yrs
- Future pensioners aged 65 (currently aged 45) - females	**90.5 yrs**	90.4 yrs

EFRBS

During 2011, the Company put arrangements in place via an Employer Financed Retirement Benefit Scheme (EFRBS) for four ‘capped’ Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2017, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

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

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

	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**
At 1 April 2016	**413.1**	**(358.6)**	**54.5**
Current service cost	4.8	-	4.8
Interest expense/income	14.5	(12.7)	1.8
Expenses	-	0.4	0.4
	19.3	(12.3)	7.0
Remeasurements			
Loss from change in financial assumptions	90.3	-	90.3
Experience (gains)/losses	-	(47.0)	(47.0)
	90.3	(47.0)	43.3
Contributions	-	(12.4)	(12.4)
Benefits paid	(25.4)	25.4	-
	(25.4)	13.0	(12.4)
At 31 March 2017	**497.3**	**(404.9)**	**92.4**

22. Pension commitments (continued)

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April 2015	396.6	(366.1)	30.5
Current service cost	10.0	-	10.0
Interest expense/income	13.4	(12.4)	1.0
Expenses	-	0.5	0.5
	23.4	(11.9)	11.5
Remeasurements			
Loss from change in financial assumptions	(4.5)	-	(4.5)
Gain from change in financial assumptions	20.4	-	20.4
Experience gains	(7.5)	16.2	8.7
	8.4	16.2	24.6
Contributions	-	(12.1)	(12.1)
Benefits paid	(15.3)	15.3	-
	(15.3)	3.2	(12.1)
At 31 March 2016	413.1	(358.6)	54.5

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

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

	2017	2016	2015	2014	2013	2012
Experience adjustments arising on scheme assets:						
Amount (£m)	**47.0**	(16.2)	(24.2)	2.9	17.9	(9.5)
Percentage of scheme assets	**11.6%**	(5%)	(7%)	(3%)	(6%)	(4%)
Experience adjustments arising on scheme liabilities:						
Amount (£m)	**(90.3)**	(8.4)	(60.7)	(5.1)	(15.7)	(16.4)
Percentage of the present value of scheme liabilities	**18%**	(2%)	(15%)	(5%)	(5%)	(6%)
Present value of scheme liabilities (£m)	**497.3**	413.1	396.6	320.1	323.3	272.8
Fair value of scheme assets (£m)	**404.9**	358.6	366.1	318.9	291.1	240.7
Deficit (£m)	**(92.4)**	(54.5)	(30.5)	(1.2)	(32.2)	(32.1)

The contributions paid in the year to 31 March 2017 include a special contribution of £7.2m (2016: 1.3m). There were no contributions paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2016: none) The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2018 amounts to £6.7m.

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

The above sensitivity analysis is based on isolated changes in each assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur and there is likely to be some level of correlation between the movements in different assumptions.

23. Capital and other financial commitments

The Group's business plan at 31 March 2017 shows net capital expenditure and infrastructure renewals expenditure of £406m (2016: £352m) during the next financial year. While only a portion of this amount has been formally contracted for, the Group is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

24. Related party transactions

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 Anghyfyngedig Group. The parent company has not entered into transactions with any other Group company during the year (2016: none).

25. Elan Valley Trust Fund

In 1984 Dŵr Cymru 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 £31.7 million, 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 Dŵr Cymru Authority, whilst preserving the capital value of the fund in real terms. Dŵr Cymru Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989.

The assets of the fund are not included in these financial statements. As at 31 March 2017 the market value of the trust fund was £118m (2016: £111m)

Interest receivable includes £2.7m (2016: £3.5m) in respect of distributions from the Elan Valley Trust Fund.

26. 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.

27. Immediate and ultimate holding company and controlling party

The immediate and ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales on 15 December 2015. The Glas Cymru Holdings Cyfyngedig report and accounts for 31 March 2017 are available on the company website. The smallest group with in which the reports of the company are consolidated is that headed by Glas Cymru Anghyfyngedig.