Registered Nº: 3975719

Glas Cymru Anghyfyngedig

Annual report and financial statements for the year ended 31 March 2018

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Foreword

These financial statements for Glas Cymru Anghyfyngedig cover the year to 31 March 2018.

Glas Cymru Anghyfyngedig is the parent company of the group of companies funded under a whole Business Securitisation Common Terms Agreement, "the Group".

The company's immediate parent and holding company is Glas Cymru Holdings Cyfyngedig; a company limited by guarantee and registered in England & Wales.

The company's group structure consists of:-

- Glas Cymru (Securities) Cyfyngedig which is the holding company of Dŵr Cymru (Holdings) Ltd and its subsidiaries.
- Dŵr Cymru (Holdings) Ltd is the intermediate holding company of Dŵr Cymru Cyfyngedig and Dŵr Cymru (Financing) Ltd
- Dŵr Cymru Financing Ltd is 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 bond issued to Dŵr Cymru Cyfyngedig
- Dŵr Cymru Cyfyngedig is a wholly owned subsidiary of Glas Cymru Anghyfyngedig and is the Group's principal trading company. Its principal activity is the supply of water and treatment and disposal of waste water under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

Directors and advisers

Directors
Chris Jones
Peter Perry
Peter Bridgewater

Company Secretary
Nicola Williams

Independent auditor
KPMG LLP
Cardiff

Solicitor
Linklaters LLP
London

Principal banker
National Westminster Bank Plc
Brecon

Strategic report

The directors present the strategic report of Glas Cymru Anghyfyngedig for the year ended 31 March 2018.

Principal activities
The principal activities of the Group are the supply of water and the treatment and disposal of waste water under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

Business review
Glas Cymru Anghyfyngedig is in a strong financial position as at 31 March 2018. Total revenue increased to £756 million (2017: £744 million) a modest increase of 2.0% reflecting Ofwat's PR14 Final Determination pricing adjustment and increased consumption has been partially offset by reduced revenues due to a higher number of customers benefiting from affordability tariffs. The income statement shows a loss before taxation of £14 million (2017: £99 million) which takes into account the fair value movements: a gain of £80 million in the market value of derivative financial instruments (2017: loss of £63 million). Operational expenditure at £318 million is £5 million higher than last year: A number of specific cost increases (severe weather incident costs, power price and employee costs) have been partially offset by lower insurance, IT costs and local authority rates. Infrastructure renewals expenditure has increased by £16 million in line with our higher level of capital investment in year three of the five year investment programme. The bad debt charge for the year has fallen to £22 million (2017: £23 million). Net interest payable of £172 million (excluding accounting gains or losses on derivatives noted above) was £31 million higher than the previous year primarily as a result of higher Retail Prices Index inflation.

The strong operational performance and financial position bring significant benefits to the three million people the Group serves across most of Wales, Herefordshire and Deeside while also safeguarding the environment as it delivers a five year £1.7 billion investment programme. The performance reflects the efficient way the Group is managing costs while continuing to improve services to customers.

Future developments
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.
We are developing and consulting on "Welsh Water 2050" which sets out our long-term goals and are using that framework to start to create the detailed plans for the next price control ("PR19") and the outline plans for the subsequent 10 years.

Financial key performance indicators
The Company is part of a group controlled by Glas Cymru Holdings Cyfyngedig. The Directors of Glas Cymru Anghyfyngedig use group-wide key performance measures as indicators to the development, performance and position of the Company. These are discussed in the Annual Report of Glas Cymru Holdings Cyfyngedig which does not form part of this report (available on the Group's website at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx).

Principal risks and uncertainties
From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately and are discussed in Glas Cymru Holdings Cyfyngedig's Annual Report and Accounts. These include:

- Health and safety major incident
- Major public health incident
- Strategic Asset Failure
- Failure to achieve required performance levels and efficiencies during the period 2015-2020
- Failure to deliver the AMP6 efficiency plan including Retail.
- Loss of key talent, capability and competence
- ICT risk
- Tough regulatory settlement for AMP7
- Uncertainty following Brexit
- Failure to earn the trust and confidence of our customers

By order of the Board

N Williams
Company Secretary
7 June 2018

Directors' report

The Board has prepared a strategic report (page 3) which provides a summary of the development and performance of the Group's business in the year ended 31 March 2018 and comments on likely future developments. The Directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2018 on pages 15 to 54.

Financial Performance
The Group is in a strong financial position as at 31 March 2018: gearing remains low at 57% and we have retained our sector-leading credit ratings.

Operational items
Glas Cymru Anghyfyngedig incurred total operational costs (excluding infrastructure renewals expenditure on maintaining our underground pipe network and depreciation) of £318 million (2017: £313 million).
A number of specific cost increases (employment costs, energy prices and costs relating to the period of severe weather in March 2018) have been partially offset by the lower cost of renegotiated IT contracts, lower business rates following reductions in rateable values and refunds.
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 2017-18 were £43 million (2017: £41 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 two years to March 2020.
Water and sewerage companies are not permitted to disconnect supplies to non-paying domestic customers, and despite a focus on other means of recovery, cash collection has continued to be challenging. The high priority and increased focus on debt recovery in the Retail business has resulted in further collections improvements during the year, and as a consequence the bad debt charge for the year has fallen, for the third year in a row, to £22 million (2017: £23 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 4,000 orders secured over nearly £9 million of our customers' debt as at 31 March 2018.

Revenue
The Group's turnover in the year to 31 March 2018 rose slightly to £757 million (2017: £744 million): a modest increase of 2.0% reflecting Ofwat's PR14 Final Determination pricing adjustment and increased consumption has been partially offset by reduced revenues due to a higher number of customers benefiting from affordability tariffs.

Financing costs
Net interest payable of £172 million (excluding accounting gains or losses on derivatives noted below) was £31 million higher than the previous year primarily as a result of higher Retail Prices Index inflation. Glas Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt which were entered into when the company was highly geared. While these are effective commercial hedges, they do not qualify for hedge accounting under IAS 39. Changes in market values create volatility in the income statement and fair value gains in 2017-18 amounted to £80 million (2017: losses of £63 million). There is, however, no impact on cash flows: the group intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such losses will revert to £nil.

Taxation
The Group continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we pay to fund it have the effect of delaying corporation tax payments to future periods.
A tax credit of £0.4m has been generated from the surrender of tax losses relating to our investment in energy efficient capital expenditure under a government-approved scheme. The company has also claimed a tax credit of £1.4m under the government's R&D Expenditure Credit (RDEC) initiative, which has been included within operating expenditure at note 3. The RDEC tax credit is taxable and the corresponding tax charge of £0.3m is included within current taxes at note 5.
The total tax credit in the income statement was £2.2m (2017: £28.9m credit). The tax credit for the year ended 31 March 2017 benefitted from a deferred tax credit of £12.4m resulting from the corporation tax rate used to calculate deferred taxes falling from 18% to 17% from 1 April 2020. As the Government has not announced any further changes to corporation tax rates, there is no deferred tax credit in the current year from corporation tax rate reductions.
There was a small tax credit of £0.1m relating to prior periods. If this is excluded from the total tax credit then the effective rate for the year is broadly in line with the standard rate of corporation tax (19%); a reconciliation is provided in note 5.

Loss before tax
The consolidated income statement shows a loss before taxation of £13 million (2017: loss of £99 million) which takes into account the inflation and fair value movements as discussed above. Operating profit has fallen from £105m last year to £77m; infrastructure renewals expenditure has increased by £16 million in line with our record level of capital investment in year three of the five year investment programme. In addition, depreciation is £19 million higher than the prior year principally due to the revaluation of fixed assets.

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 Cymru Holdings and its subsidiaries (the Group). Our Head of Tax isresponsible for the day-to-day application of the tax strategy and the management of the Group's tax affairs. Our Head of Tax works closely with the Finance and Commercial Director. All material tax issues, risks and developments are regularly communicated to the Audit Committee.

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

Our approach to tax planning and tax risk

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

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

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

Tax risks are held within the Group's risk register and are updated regularly.

Our key tax risks principally arise from business developments and changes to tax legislation which may result in unforeseen tax implications. Where possible we seek to mitigate tax risk so that residual risk is minimal.

Our tax team is involved in all significant business developments enabling a full assessment of the tax implications to be made.

We seek input from reputable external advisers where the tax implications are still unclear. In cases where residual uncertainty remains we liaise with HMRC to gain clarity.

Our tax team participates in a number of water industry tax forums. The team receives regular technical updates from our professional advisers and from our periodic meetings with HMRC.

This ensures that the team is kept informed of all relevant developments in tax law, enabling them to develop appropriate systems and controls to address legislative changes.

We actively contribute to the UK tax 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. See pages 34 to 35.

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 a defined benefit pension scheme actuarial gain of £12 million (2017: loss of £43 million) and the balance sheet liability as at 31 March 2018 was £80 million (2017: £95 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.

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 2018 have been prepared on the going concern basis.

Dividend policy
In March 2016 the parent company's Board approved a dividend policy to enable up to £100m of funds to be paid intra-Group, outside the regulatory ringfence, in order to enable the funding of commercial projects. During 2016-17 a dividend of £30m was paid up to Glas Cymru Holdings for onward distribution via intra-Group loan during 2017-18 to the commercial subsidiaries of Welsh Water Holdings Limited. £21.6m of this dividend to Glas Cymru Holdings was loaned to Welsh Water Holdings for the purchase of the food waste business of Kelda in Cardiff (Welsh Water Organic Energy Limited) in December 2017. No dividend was paid in 2017-18.

Return of value "Dividend" to customers
Our corporate structure ensures that all surpluses are applied for the benefit of customers. Since 2001, the Group has applied £353m in total for the benefit of customers. These distributions abide by the restrictions which would apply to payment of dividends in a shareholder-owned structure. Accordingly, Return of Value in 2017-18 was set at £34m in total, in order to ensure that the gearing target could be maintained, at just below 60% in 2020, to preserve a strong credit rating and financial resilience for the longer-term benefit of customers, to take account of known and expected costs and also taking account of the Group's pension funding position (including commitments to contribute to deficit payments). The distribution does not forecast any net penalties or rewards under Ofwat's outcome delivery incentive over the five year period to 2020.

Capital investment
The Group's strong financial position has been built up over the last 17 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. The Group 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 £431 million (2017: £366 million). This is our highest ever level of investment and in line with our planned profiling of the AMP6 Capital Programme, including accelerated investment in our Zonal Studies programme.
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 (AMP6, 2015-2020), our largest ever investment programme.
We are currently finalising our investment plans for AMP7 which will run from 2020 to 2025, prior to submission to our regulator, Ofwat, as part of the five-yearly price review process which will set allowed levels of customer bills for the next regulatory period.

Credit rating and interest rate management
The Group has the strongest credit ratings in the water sector, reflecting our high level of creditworthiness. The ratings of the Group's Class A and B debt at 31 March 2018 were A/A2/A from Standard & Poor's (S&P), Moody's and Fitch Ratings respectively.
As at 31 March 2018, approximately 65% of gross debt was index-linked via bonds and derivatives (2017: 65%), with the remainder at fixed interest rates. The expected maturity of the outstanding fixed-rate and index linked bonds ranges from 2021 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

Gearing policy
The Group'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 in order to keep down funding costs for customers.

Liquidity and Financial Reserves
The Group 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.
During the year to March 2018, the Group drew down a £60m loan facility with KfW Bank (18 May 2017) and on 17 January 2018 we announced a benchmark-sized GBP Class B bond transaction. The bond proceeds of £300 million were settled on 24 January 2018 with a maturity date of 31 March 2036 and a fixed coupon of 2.5%.
On Glas Cymru Anghyfyngedig'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 57% by 31 March 2018 and 'customer reserves' (RCV less net debt) were £2.4 billion. As at 31 March 2018, the Group had available total liquidity of £703 million, including cash balances of £283 million.
We have funding in place through to the end of the current regulatory period in March 2020 and have a further £170 million of undrawn revolving credit facilities.

Events after the financial year-end
There have been no post balance sheet events.

Corporate Social Responsibilty
Our wider impact
As one of the biggest employers in Wales and serving 3.1 million people across our supply area in Wales and England, we are acutely aware of our responsibility to our employees and to the wider community. We have set out details of the additional work we do in the communities and rural areas that we serve in our Impact Report.
This 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 our colleagues and supply chain
We are working closely with both colleagues and our supply chain to ensure that the key principles underpinning are essential policies are rolled out and understood as part of the values that apply in everything we do for customers.

Occupational health and safety
We are committed to high standards of occupational health and safety. During 2017-18 we have seen a reduction in the rate of HSE RIDDOR reportable incidents (RIR) and we have had the lowest RIR and All Injury Rates (AIR) for over 10 years. 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**

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

Human rights
We are committed to respecting human rights in relation to colleagues and our supply chain. Our Code of Conduct was relaunched in March 2018. This explicitly encourages colleages to "speak up" if anything doesn't seem right to them, in order to reinforce our culture of "doing the right thing" and individual accountability. The Code is supported by a number of Group policies, as well as associated procedures and guidance, including:

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

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

Whistleblowing

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

Modern Slavery Act 2015

We are committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery, human trafficking and child labor and we are working to raise awareness across the business and 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 the Group's commitment to acting ethically and with integrity in our supply chain arrangements. As part of our procurement process, any potential contractor or supplier will be required to confirm that they comply with the Modern Slavery Act and, if appointed, we require that they flow down the requirements we place on them to any sub-contractors they use to provide their services to us. Our terms and conditions will include contractual provisions relating to compliance with the Modern Slavery Act. We are implementing these new provisions in all new agreements, upon renewal of key agreements and upon issue of purchase orders. We have written to our existing suppliers to remind them of the requirements of the Act and our policy in this area. Our Human Resources team maintains recruitment polices to protect against slavery and human trafficking in our own operations and we are working towards meeting the Welsh Government's 12 commitments in its Code of Practice on Ethical Employment in supply chains. Further details and our anti-slavery statement can be found on the following link: **dwrcymru.com/Company-Statements.**

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

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

Competition Law Compliance
Welsh Water is entirely supportive of open and fair competition and committed to adhering strictly to all competition laws.

Supplier Payment Policy
During the year our Group Finance team has worked to improve our payment terms for all suppliers, in accordance with the Prompt Payment Code. Where suppliers comply with the terms and conditions of their appointment, including the provision of a compliance invoice with relevant supporting documentation, our policy is that payment should be processed within 30 days of the date of the invoice. We are working to improve our performance against these clear policy objectives.

Supporting our customers and communities
Access and Recreation
We are the custodian approximately 40,000 hectares (99,000 acres) of land that is rich in scenery and biodiversity. This enables us to provide excellent opportunities for public recreation, with 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. We also have established Visitor and Activity Centres at our Llandegfedd (Gwent), Brenig (Denbighshire), Llys y Fran (Pembrokeshire) and Elan Valley (Powys) sites. For more information on our contribution to public access and tourism please see our Impact report.
Biodiversity
From December 2019, under the Environment (Wales) Act 2016 we will report on a three-yearly basis on compliance with our duty to strengthen biodiversity and ecosystems across our supply area.

Welsh Water Community Fund
During the year, we launched the Welsh Water Community Fund to give something back to the communities in which we are investing.
The Community Fund is a chance for communities to boost fundraising efforts for good causes in their area. In making awards from this fund, our Community Fund committee gives priority to areas where Welsh Water has been carrying out works that may have impacted the local community. The scheme has been a huge success to date, with over 200 applications received since its launch in September 2017. For further information please see our Impact report or our website.

Data protection and information security
We have undertaken a Group-wide compliance and awareness programme during the year in preparation for the General Data Protection Regulation which came into force in May 2018. This aimed to reinforce awareness across the Group that the personal data we hold belongs to individual customers or colleagues and highlighted the importance of protecting the privacy of the individual in relation to the personal information we hold. We have established key principles that govern the collection, use and handling of personal information and provides individuals with important rights. Our Privacy Notice is available on our website.
Our policies also reinforce the role of individuals in keeping information more generally secure and accurate. The Audit Committee regularly reviews our approach to Cyber-Security risk. During the year, we attained Cyber-Essentials plus certification and we are working towards IS270001 accreditation for our information security controls.

Innovation
Our innovation portfolio continues to grow with 300 ideas and proposals now assessed through our iLab process since April 2015. We have completed some 78 projects, winning over 8 innovation awards in the process and worked with 121 partner organisations investing some £5.9m in 2017/18 on innovation on behalf of our customers. This work continues to drive efficiencies, reducing our environmental footprint, and improving our 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 continues to 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 continue to drive 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.

Employees
At 31 March 2018, the Group had 3,435 employees. We know that our success is fundamentally dependent upon our highly committed and motivated people and we are committed to developing our people to meet the challenges of operating our business in the future and to encouraging a diverse workforce that fully reflects the communities that we serve.

Improving the diversity of our workforce
We do not discriminate against applicants or employees on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation ("protected characteristics" in accordance with the Equality Act 2010) or any other personal characteristic. If an employee is disabled or becomes disabled, we consider any reasonable adjustments that 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.

Political donations
It is Board policy not to make donations to political parties or to incur political expenditure. During the year a payment of £33,750 was made to Citizens Advice, to fund a debt advisor providing advice to our customers in Rhondda Cynon Taff, and a payment of £18,000 was made to Step Change to support the work the charity does in providing debt advice to our customers (2017: £18,270 to Step Change). We are disclosing these payments as both organisations also campaign for government policy change, including on debt issues, however, the funding provided was earmarked for specific debt advice. 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
We try to minimise our effect on the environment in everything we do including seeking to reduce our emissions of greenhouse gases. We measure this through the calculation of our operational carbon emissions. In previous years, these emissions have been dominated by grid supplied energy (electricity and gas). However, in 2017/18 we began a new electricity supply arrangement with Orsted (formally known as DONG) which ensures all our electricity is from green renewable sources (backed by the Renewable Energy Guarantees of Origin (REGO) scheme). This change means that our

Greenhouse gases (continued)
electricity supply can be declared as having zero carbon emissions, save for some emissions associated with the transmission and distribution of the electricity, a reduction of 134ktCO2e (at 2017/18 emissions factors).
In 2017/18 our operational carbon emissions fell 71% to 62ktCO2e (2016/17: 212 ktCO2e). Had we not changed electricity supply contract the carbon emissions would have fallen by 7% to 197ktCO2e mainly due the ongoing reduction in the carbon content of electricity as UK coal based generation has now largely been replaced by gas. Our underlying electricity consumption rose to 466 GWh (2016/17: 451 GWh) partially offset by our renewable energy generation rising to 98GWh (2016/17: 87 GWh) with rises in hydro (to 42 from 37 GWh) and our first full year of wind energy generation (6 GWh). Carbon emissions from other parts of the business, mainly from sludge processing and transport use as well as our fuel consumption, rose from previous year by 4ktCO2e.

Welsh Language Scheme
We have adopted the principle that in the context of conducting our public business in Wales we will treat the Welsh and English languages on a basis of equality. We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an effective standard of service in both languages.
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.

Wateraid
As befits our operating model, we do not engage in corporate sponsorship but we continue to provide support to WaterAid. For further details please see our Social Impact Report. Investing in education and engaging with the communities we serve so that the next generation understand the part they have to play in helping us achieve our vision is a key part of our service.
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.
To extend the reach of our education provision, we also have 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.

Persons of significant control
We maintain a Register of People with Significant Control to comply with the requirements of the Small Business, Enterprise and Employment Act 2015 (2015 Act). The company has identified registrable relevant legal entities (RRLEs) within our Group structure.

Director's 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, and submission to Members.

Annual general meeting
The 2018 AGM will be held on Friday 6 July 2018 at The Marriot Hotel, Swansea.
The business of the AGM includes:

- receiving the Directors' Report;
- receiving the Financial Statements for the year ended 31 March 2018;
- approval of the Remuneration Report for the year ended 31 March 2018 and approval of the extension of the Remuneration Policy for a further two-year period;
- 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 is no special business. Further information in respect of all resolutions is provided in the Notice of 2018 AGM sent to the Members of Glas Cymru.

Directors' report (continued)

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG LLP have expressed their willingness to continue as auditors and a resolution for their reappointment will be considered at the 2018 annual general meeting.

N Williams
Company Secretary

Registered office:
Pentwyn Road,
Nelson,
Treharris,
Mid Glamorgan,
CF46 6LY
7 June 2018

Statement of Directors' responsibilitites in respect of the strategic report, director's report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the members of Glas Cymru Anghyfyngedig

Opinion

We have audited the financial statements of Glas Cymru Anghyfyngedig ("the company") for the year ended 31 March 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, parent company balance sheet, parent company statement of changes in equity, consolidated cash flow statement, parent company cash flow statement and related notes, including the accounting policies on page 22.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

7 June 2018

Consolidated Income Statement for the year ended 31 March 2018

Continuing activities	Note	£m	2018 £m	£m	2017 £m
Revenue			**756.7**		743.6
Operating costs:					
- Operational expenditure	3		**(317.9)**		(312.6)
- Infrastructure renewals expenditure			**(86.0)**		(69.7)
- Depreciation and amortisation	3		**(275.8)**		(256.6)
			(679.7)		(638.9)
Operating profit			**77.0**		104.7
Profit on disposal of fixed assets			**1.8**		-
Profit before interest			**78.8**		104.7
Financing expenses:					
- Finance costs payable and similar expenses	4a	**(175.9)**		(144.2)	
- Finance income receivable	4a	**3.9**		3.6	
- Fair value (losses)/gains on derivative financial instruments	4b	**80.0**		(63.0)	
			(92.0)		(203.6)
Loss before taxation			**(13.2)**		(98.9)
Taxation	5		**2.2**		28.9
Loss for the year			**(11.0)**		(70.0)

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 2018 was £nil (2017: £30.2m profit).

Consolidated Statement of comprehensive income for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Loss for the year		**(11.0)**	(70.0)
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) recognised in the pension scheme	21	**12.2**	(43.3)
Related deferred tax	6	**(2.8)**	5.9
Revaluation of property, plant and equipment	7	**158.1**	156.8
Related deferred tax	6	**(26.9)**	(15.3)
Total items that will not be reclassified to profit or loss		**140.6**	104.1
Total comprehensive income for the year		**129.6**	34.1

Consolidated Statement of changes in equity for the year ended 31 March 2018

	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 April 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)
Dividend 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**
Loss for the year	-	**(11.0)**	**(11.0)**
Actuarial loss net of tax	-	**9.4**	**9.4**
Dividends paid	-	-	-
Revaluation net of tax	**131.2**	-	**131.2**
Transfer to retained earnings	**(57.5)**	**57.5**	-
At 31 March 2018	**1,142.8**	**72.5**	**1,215.3**

Consolidated Balance Sheet as at 31 March 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Property, plant and equipment	8	5,296.1	5,065.2
Intangible assets	9	146.0	119.5
Financial assets:			
- derivative financial instruments	15	1.9	2.2
		5,444.0	5,186.9
Current assets			
Trade and other receivables	11	577.3	563.2
Inventories		3.2	2.8
Financial assets:			
- derivative financial instruments	15	6.4	4.0
Cash and cash equivalents	12	277.4	70.4
		864.3	640.4
Total assets		6,308.3	5,827.3
Liabilities			
Current liabilities			
Trade and other payables	13	(563.2)	(556.5)
Financial liabilities:			
- borrowings	14	(42.1)	(39.3)
- derivative financial instruments	15	(29.2)	(35.2)
Provisions for other liabilities and charges	17	(2.4)	(1.2)
		(636.9)	(632.2)
Net current assets		227.4	8.2
Non-current liabilities			
Trade and other payables	13	(234.0)	(204.6)
Financial liabilities:			
- borrowings	14	(3,317.3)	(2,938.8)
- derivative financial instruments	15	(376.2)	(448.0)
Post employment benefits	21	(80.4)	(95.2)
Provisions for other liabilities and charges	17	(6.5)	(9.6)
		(4,014.4)	(3,696.2)
Net assets before deferred tax		1,657.0	1,498.9
Deferred tax - net	6	(441.7)	(413.2)
Net assets		1,215.3	1,085.7
Equity			
Revaluation reserve		1,142.8	1,069.1
Retained earnings		72.5	16.6
Reserves		1,215.3	1,085.7

The financial statements on pages 15 to 54 were approved by the Board of Directors on 7 June 2018 and were signed on its behalf by:

P J Bridgewater
Director

Registered № 2366777

Parent Company Balance Sheet as at 31 March 2018

	2018	2017
	£m	£m
Assets		
Non-current assets		
Trade and other receivables	3.5	3.5
	3.5	3.5
Current assets		
Cash and cash equivalents	-	-
Liabilities		
Current liabilities		
Bank overdraft	-	-
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 Equity for the year ended 31 March 2018

	Retained earnings £m
Balance at 1 April 2016	-
Profit for the year	30.2
Dividends paid	(30.2)
Balance at 1 April 2017	-
Profit for the year	-
Balance at 31 March 2018	-

The financial statements on pages 15 to 54 were approved by the Board of Directors on 7 June 2017 and were signed on its behalf by:

P J Bridgewater
Director

Consolidated Cash Flow Statement for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	18a	**348.0**	336.9
Interest paid	18b	**(132.9)**	(124.6)
Income tax received		**0.4**	1.1
Net cash generated from operating activities		**215.5**	213.4
Cash flows from investing activities			
Interest received		**3.9**	3.8
Purchase of property, plant and equipment		**(302.2)**	-
Proceeds from sale of property, plant and equipment		**2.5**	(237.7)
Purchase of intangible assets		**(48.2)**	(33.5)
Grants and contributions received		**11.4**	16.1
Net cash outflow from investing activities		**(332.6)**	(251.3)
Net cash flow before financing activities		**(117.1)**	(37.9)
Cash flows from financing activities			
Long term loans received		**60.0**	70.0
Bond issue costs		**(3.5)**	-
Bond Issue		**300.0**	-
Repayment of borrowings		**(0.2)**	(36.9)
Dividend paid to immediate parent company		**-**	(30.2)
Term loan repayments		**(21.6)**	(20.3)
Finance lease principal repayments		**(9.8)**	(9.3)
Other loan repayments		**(0.8)**	(0.1)
Net cash flow from financing activities		**324.1**	(26.8)
Increase/(decrease) in cash and cash equivalents		**207.0**	(64.7)
Cash and cash equivalents at 1 April		**70.4**	135.1
Cash and cash equivalents at 31 March		**277.4**	70.4

Parent Company Cash Flow Statement for the year ended 31 March 2018

	2018	2017
	£m	£m
Cash flow from operating activity		
Operating profit	-	-
Net cash inflow from operating activity	-	-
Cash flow from investing activity		
Dividend received from subsidiary	-	30.2
Net cash flow from investing activity	-	30.2
Net cash inflow 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 2018

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

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

The preparation of financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 29.

Basis of consolidation

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

The parent company financial statements present information about the company as a separate entity and not about its group.

Going concern

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

Changes in accounting policies and disclosures

The following Adopted IFRSs have been issued but have not been applied in these financial statements.

- **IFRS 9 Financial Instruments (effective date 1 January 2018).** The standard introduces a revised model for the classification and measurement of financial instruments, a revised approach to hedge accounting and an "expected loss" impairment model. The Group has reviewed the likely impact of adoption and recognises that, while the impairment model is in line with its current approach, additional disclosures will be required to show historical experience and the extent of forward-looking factors. Work is ongoing to assess the potential extent of future expected losses in relation to the measured income accrual but following an initial assessment, the impact is not expected to be material.

- **IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018).** The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts', and related interpretations. The Group has undertaken an assessment of the impact of IFRS 15 and while the basis of the period of deferral may differ for infrastructure charges, the directors do not anticipate that it will result in any material change to revenue recognised.

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

Accounting policies for the year ended 31 March 2018 (continued)

Changes in accounting policies and disclosures (continued)

- **IFRS 16 Leases (effective date 1 January 2019).** The standard revises the treatment of leases in financial statements and largely eliminates the accounting distinction between operating and finance leases. The Group has only a small number of low value, short term operating leases and therefore the impact of adoption is not expected to be material.

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. Revenue recognised reflects the actual charges levied on 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.

Investments

The parent company's investments comprise equity holdings in wholly-owned subsidiaries, as set out in note 10. These are stated at historic cost.

Property, plant and equipment

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

As at 31 March 2018 the total value of tangible and intangible fixed assets has been revalued to the Group's 'shadow RCV', being the 31 March 2018 RCV published by Ofwat in its PR14 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

Property, plant and equipment comprise:

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

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

Infrastructure assets

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

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is treated as additions, which are included at cost. Expenditure incurred in repairing and maintaining the operating capability of individual infrastructure components, "infrastructure renewals expenditure", is expensed in thebyear in which the expenditure is incurred.

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

Accounting policies for the year ended 31 March 2018 (continued)

Property, plant and equipment (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.

Other assets

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

Freehold buildings	60 years
Operational structures	5 – 80 years
Plant, equipment and computer hardware	3 – 40 years

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

Borrowing costs

Borrowing costs are general and specific borrowing costs directly attributable to 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, system 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 dictate the carrying value may not be recovered. Intangible assets are amortised on a straight line basis over their estimated useful economic lives, which range between 3 and 20 years. These asset lives are reviewed annually.

Leased assets

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), the assets are capitalised and included in "property, plant and equipment" with the corresponding liability to the lessor included within "financial liabilities – borrowings". Leasing payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor with the finance charge being recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

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

Grants and customer contributions

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

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

Capital expenditure programme incentive payments

The Company'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 only recognised on completed projects.

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

Accounting policies for the year ended 31 March 2018 (continued)

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. They are first assessed individually for impairment, or collectively where the receivables are not individually significant. 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 Company operates a defined benefit sceme, the DCWW Pension Scheme, which was closed to furture accrual from 1 April 2017 for all members except for 18 ESPS section membeers. The scheme is funded by employer contributions as well as employee contributions from the remaining active members. Contribution rates are based on the advice of a professionally qualified actuary and actuarial valuations of the scheme are carried out at least every thre years.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plans assets. The defined benefit obligation is calculated annually by independent actuaries 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 charges 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 Company operates a defined contibution scheme, the DCWW Group Personal Pension Plan, which all employees are eligible to join. Obligations for contributions to the sceme are recognised as an expense in the income statement in the period in which they arise.

Financial liabilities

Debt is initially measured at fair value, which is the amount of the 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 Company are interest rate, inflation swaps and power hedges. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures. Derivatives are recognised initially and subsequently re-measured at fair value. During the year to 31 March 2018, none of the Company's derivatives qualified for hedge accounting under IAS 39 (2017: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

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

Accounting policies for the year ended 31 March 2018 (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. [For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the company's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.]

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Provisions

Provisions for restructuring costs, dilapidations, uninsured losses and losses on swap closure are recognised when the Company 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 Company 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 may be small.

Estimates

The preparation of financial statements in comforming with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company'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 29.

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

Financing risk management

Treasury activities are managed centrally by the Group within a formal set of treasury policies and objectives, which are reviewed regularly and approved by the Board. The policy specifically prohibits any transactions of a speculative nature and the use of complex financial instruments. Certain detailed policies for managing interest rate, currency and inflation risk and that for managing liquidity risk are approved by the Board and may only be changed with the consent of Dŵr Cymru Cyfyngedig's security trustee. The risk is further mitigated by limiting exposure to any one counterparty. The Company uses financial instruments to raise finance and manage operational risk; these 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 rating of AA-/Aa3/AA-.

In practice, in the current economic enviroment the Group has adopted a more prudent approach to cash management and deposits are placed for a maximum of 35 days with banks subject to minimum long-term rating criteria of A-/A3/A-. Bond and commercial paper purchases for up to 35 days can be placed with counterparties subject to a minimum rating criteria of two out of three AA-/Aa3/AA- or of up to one year with certain AAA supranationals only During the year, the maximum cash investment with a single counterparty was £73m (2017: £43m).

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 Company to inflation risk. Subject to market constraints and Board approval, the Group therefore may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The Company 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 Group borrowings of £3,359m as at 31 March 2018 (2017: £2,978m), none related to floating rate debt (2017: none). The Company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2018, 100% (2017: 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 £397 million in the balance sheet at 31 March 2018 (2017: £477m) 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 within 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, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £3,309m (2017: £2,923m) can fall due in any 24 month period.

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

Financing risk management (continued)

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 2018, the Group had committed undrawn borrowing facilities of £420m (2017: £460m) and cash and cash equivalents (excluding debt service payments account) of £294m (2017: £95m).

The undrawn facilities comprise £170 million revolving credit facilities which are available until 2020 and a European Investment Bank loan facility of £250m, available until January 2019. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2018 there was also a special liquidity facility of £135 million (2017: £135 million); 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 Company'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 2018 gearing was 57% (2017: 56%).

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

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

Critcial accounting estimates

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of the cash flows that are expected. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability of a failure to recover amounts when they fall into arrears. The probability of failing to recover is determined by past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 1%, the provision for impairment would increase or decrease by £0.9 million (2017: £1.0 million).

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, inflation price and mortality rates which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability.Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2018 would increase or reduce by £8.9m (2017: £9.9m).

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 2018 was £70.8 million (2017: £68.8 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.5 million (2017: £0.5 million).

Fair Value Estimatiom

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 (that is, as prices) or indirectly (that is, derived from prices).

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

All of the Company's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2018 were valued as follows:

Assets: trading derivatives £4.8m, Treasury derivatives £3.5m. (March 2017: Trading derivatives £2.6m, Treasury derivatives £3.6m).

Liabilities: trading derivatives £0.3m, Treasury derivatives £405.1m. (March 2017: Trading derivatives 3.3m, Treasury derivatives £479.9m).

Trading derivatives relate to power price hedges. Treasury derivatives relate to interest rate swap contracts. Both types of swaps 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. While 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.

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

Critical accounting estimates and judgements (continued)

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 in the UK. As the Company has only domestic activities there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements.

3. Loss before taxation

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

Group	Total 2018 £m	Total 2017 £m
Operating expenditure		
Power	**42.7**	41.0
Chemicals	**9.6**	9.3
Materials and equipment	**5.5**	5.5
Vehicles and plant	**8.5**	7.8
Office expenses	**13.8**	10.3
Property costs	**4.0**	3.5
Insurance	**4.1**	5.7
Sewerage contractors	**19.8**	18.5
Laboratories and analytical services	**0.8**	0.7
Collection commissions	**4.2**	3.6
IT Contracts	**11.1**	16.2
Bought-in services and other costs	**33.1**	35.3
	157.2	157.4
Employee costs (note 20)	**151.1**	134.4
Staff costs capitalised	**(53.8)**	(48.3)
	97.3	86.1
Research and development credit	**(1.4)**	-
Trade receivables impairment	**22.1**	23.3
Rates	**26.9**	30.5
Natural Resources Wales/Environment Agency charges	**15.3**	14.8
Fees payable to auditors	**0.5**	0.5
Total operational expenditure	**317.9**	312.6
Infrastructure renewals expenditure	**86.0**	69.7
Depreciation and amortisation		
- Depreciation property, plant and equipment	**259.3**	241.4
- Release of deferred income	**(5.2)**	(4.5)
- Amortisation of intangible assets	**21.7**	19.7
Total depreciation and amortisation	**275.8**	256.6
Total operating costs	**679.7**	638.9

Notes to the financial statements (continued)

3. Loss before taxation (continued)

Services provided by the company's auditors

During the year the group headed by the parent company, Glas Cymru Holdings Cyfyngedig, obtained the following services from its auditors as detailed below, all of which were paid by Glas Cymru Angyfyngedig's wholly-owned subsidiary, Dŵr Cymru Cyfyngedig:

	Group	
	2018	2017
Audit fees	**£000**	£000
Audit of parent company and consolidated financial statements	**20**	20
Audit of subsidiary companies	**139**	120
Total audit fees	**159**	140
Audit-related assurance services		
Review of interim financial statements	**22**	22
Regulatory audit services pursuant to legislation	**48**	39
Regulatory price review assurance work	**-**	14
Scheme of charges assurance work	**26**	25
Investor report reviews	**6**	6
Environment Agency levy assurance work	**3**	3
Bond issuance assurance work	**38**	-
Wholesale charges assurance work	**-**	22
Total audit and audit-related assurance services	**302**	271
Other services		
Pensions advice	**80**	37
Tax advisory services	**-**	17
Assurance on market opening	**-**	25
Assurance on commercial activities	**58**	85
Legal services advice including payroll, reward and data analytics services regarding Gender Pay Gap reporting and a voluntary equal pay audit	**65**	30
Total other services	**203**	194
Total cost of services provided by the Group's auditors	**505**	465

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

4. Financing costs

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

	Group	
	2018	2017
	£m	£m
Interest payable on bonds	**(86.7)**	(88.4)
Indexation on index-linked bonds	**(45.7)**	(24.8)
Indexation on index-linked loan	**(9.6)**	(5.7)
Interest payable on finance leases (including swaps to RPI)	**(20.8)**	(18.5)
Other loan interest	**(20.0)**	(12.6)
Other interest payable and finance costs	**(7.0)**	(1.9)
Net interest charge on pension scheme liabilities	**(2.5)**	(1.8)
Capitalisation of borrowing costs under IAS 23 (2017: 5.2%; 2016: 3.4%)	**16.4**	9.5
	(175.9)	(144.2)
Finance income	**3.9**	3.6
Net finance cost before fair value adjustments	**(172.0)**	(140.6)

b) Fair value gains/(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 15 in respect of derivative financial instruments recognised in the balance sheet.)

	Group	
	2018	2017
	£m	£m
Fair value gains/(losses) on interest rate swaps	**3.6**	(2.6)
Fair value gains/(losses) on index-linked swaps	**71.2**	(69.0)
Fair value gains on trading derivatives	**5.2**	8.6
Total fair value gains/(losses) on derivative financial instruments	**80.0**	(63.0)

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.

5. Taxation

Analysis of credit/(charge) in the year

	Group	
	2018	2017
	£m	£m
Current tax		
- Current tax on profits for the year	**0.4**	1.0
- Current tax on research and development credit	**(0.3)**	-
- Adjustment in respect of prior years	**0.9**	(0.1)
Total current tax	**1.0**	0.9
Deferred tax		
- Origination and reversal of timing differences	**2.2**	17.5
- Adjustment in respect of prior year	**(1.0)**	(1.9)
- Effect of tax rate change	**-**	12.4
Total deferred tax (note 6)	**1.2**	28.0
Taxation credit	**2.2**	28.9

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

Tax trading losses carried forward as at 31 March 2018 are £nil (2017: £187m) and have decreased as a result of disclaiming capital allowances in relation to a prior period.

Deferred taxes in the year ended 31 March 2017 benefited from a £11.8m credit following reductions made to the future rates of corporation taxes. The rate used to calculate deferred taxes fell from 18% to 17% for that year. The Government has not announced any further reductions to corporation tax rates and therefore no further credits arising from rate changes have arisen in this period nor are any expected in future periods.

	Group	
	2018	2017
	£m	£m
(Loss)/profit before tax	**(13.2)**	(98.9)
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 19% (2017: 20%)	**(2.5)**	15.4
Effect of:		
- Adjustments in respect of prior years	**0.1**	1.9
- Other permanent differences	**0.9**	0.7
- Effect of pension payments in excess of service charge	**(0.7)**	(1.0)
- Effect of tax rate change on closing deferred tax from 18% to17%	**-**	(12.4)
- Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	**-**	1.7
Total taxation credit	**(2.2)**	(28.9)

6. 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	
	2018	2017
	£m	£m
At 1 April	**413.2**	431.8
Credit to Income Statement	**(1.2)**	(28.0)
Charge/(credit) to Statement of Comprehensive Income	**2.8**	(5.9)
Charge to Revaluation Reserve	**26.9**	15.3
At 31 March	**441.7**	413.2

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

	Group	
	2018	2017
	£m	£m
Defined benefit pension schemes	2.1	(7.8)
Reallocation of tax from income statement- pension payment in excess of service charge	0.7	1.0
Reduction in corporation tax rate - pension scheme	-	0.9
	2.8	(5.9)
Revaluation of fixed assets	26.9	28.2
Reduction in corporation tax rate - revaluation of fixed assets	-	(12.9)
	26.9	15.3

	Group	
	2018	2017
	£m	£m
Effect of:		
- Tax allowances in excess of depreciation	**280.3**	316.0
- Deferred tax on revaluation of fixed assets	**234.1**	218.9
- Capital gains rolled over	**2.7**	2.7
- Deferred tax on tax losses carried forward	**(0.3)**	(32.1)
- Deferred tax on losses on derivative financial instruments	**(60.7)**	(75.1)
- Pensions	**(12.9)**	(15.7)
- Other tax differences	**(1.5)**	(1.5)
Net provision for deferred tax	**441.7**	413.2

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

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

7. Revaluation reserve

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

As at 31 March 2018 the total value of tangible and intangible fixed assets has been revalued to the company's 'shadow RCV', being the 31 March 2018 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	**2018**	2017
	£m	£m
Revaluation reserve as at 1 April	**1,069.1**	977.9
Revaluation of assets to RCV	**158.1**	156.8
Depreciation charge on revalued assets	**(69.3)**	(61.3)
	88.8	95.5
Deferred tax on revaluation	**(26.9)**	(15.3)
Deferred tax on depreciation charge	**11.8**	11.0
	(15.1)	(4.3)
Revaluation reserve as at 31 March	**1,142.8**	1,069.1

8. Property, plant and equipment

Group

Current year	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2017	41.7	2,236.6	3,866.1	264.1	6,408.5
Revaluation	-	21.5	-	-	21.5
Additions net of grants and contributions	-	104.2	222.9	5.7	332.8
Disposal	-	-	-	(6.6)	(6.6)
At 31 March 2018	**41.7**	**2,362.3**	**4,089.0**	**263.2**	**6,756.2**
Accumulated depreciation					
At 1 April 2017	20.6	-	1,059.3	263.4	1,343.3
Revaluation	-	(48.6)	(88.0)	-	(136.6)
Charge for the year	0.7	48.6	205.7	4.3	259.3
Released on disposal	-	-	-	(5.9)	(5.9)
At 31 March 2018	**21.3**	-	**1,177.0**	**261.8**	**1,460.1**
Net book value					
At 31 March 2018 (see note 7)	**20.4**	**2,362.3**	**2,912.0**	**1.4**	**5,296.1**
At 31 March 2018 (historic cost)	**20.4**	**1,730.8**	**2,166.6**	**1.4**	**3,919.2**

The net book value of property, plant and equipment includes £278.5m in respect of assets in the course of construction (2017: £207.6m).

£55.4m of borrowing costs were capitalised in accordance with IAS 23 (2017: £42.9m) of which £14.1m were additions in the year (2017: £8.4m).

8. 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 or valuation					
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
Disposals	-	-	-	(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*

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

Current Year	Infrastructure assets £m	Operational assets £m	Total £m
At 31 March 2018			
Valuation	669.9	117.7	787.6
Accumulated depreciation	-	(77.7)	(77.7)
Net book value	669.9	40.0	709.9

Prior Year	Infrastructure assets £m	Operational assets £m	Total £m
At 31 March 2017			
Valuation	670.5	117.7	788.2
Accumulated depreciation	-	(73.6)	(73.6)
Net book value	670.5	44.1	714.6

9. Intangible assets

Current year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2017	274.8	(155.3)	119.5
Additions/(charge) for year	48.2	(21.7)	26.5
At 31 March 2018	**323.0**	**(177.0)**	**146.0**

Prior 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

Intangible assets principally comprise computer software and related system developments.

The net book value of intangible assets includes £36.7m in respect of assets in the course of construction (2017: £20.0m). The net book value of intangible assets includes £5.6m of borrowing costs capitalised in accordance with IAS 23 (2017: £3.6m), of which £2.3m were additions in the year (2017: £1.1m).

The parent company owns no intangible assets.

10. Investments

Group

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

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

Parent Company

The parent company has a £1 investment in Glas Cymru (Securities) Cyfyngedig (100% holding) and 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%

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

11. Trade and other receivables

	Group 2018 £m	Group 2017 £m
Current		
Trade receivables	**556.7**	556.6
Provision for impairment of receivables	**(83.8)**	(95.8)
Trade receivables - net	**472.9**	460.8
Prepayments and accrued income	**87.3**	90.2
Amounts owed by group undertakings	**0.7**	-
Other receivables	**16.4**	12.2
Total trade and other receivables	**577.3**	563.2

As at 31 March 2018, based on a review of historical collection rates it was considered that £83.8m (2017: £95.8m) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of receivables was as follows:

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

Prior 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

The maximum exposure to credit risks at the reporting date is the carrying value of each class of receivable mentioned above. The Group holds around 4,100 charging orders as collateral against £9m of debt.

11. Trade and other receivables (continued)

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

	2018	2017
	£m	£m
At 1 April	95.8	85.3
Charge to income statement	20.8	22.8
Receivables written off during the year as uncollectable	(32.8)	(12.3)
At 31 March	83.8	95.8

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

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

During the year the Group has written off £32.8m of debt which had been provided for in full (2017: £12.3m).

The total charge to the income statement of £22.1m (2017: £23.3m) includes the bad debt element of collection charges under arrangements with third parties who collect debt on the Group's behalf (2018: £1.3m, 2017: £0.5m).

12. Cash and cash equivalents

	Group	
	2018	2017
	£m	£m
Cash at bank and in hand	**9.9**	6.4
Short-term deposits	**267.5**	64.0
	277.4	70.4

The effective interest rate on short-term deposits for the Group as at 31 March 2018 was 0.5% (2017: 0.2%) and these investments had an average maturity of 23 days (2017: 22 days). All cash and cash equivalents were held in sterling.

13. Trade and other payables

	2018	2017
	£m	£m
Current		
Trade payables	**44.9**	44.6
Capital payables	**60.2**	65.8
Other taxation and social security	**3.4**	4.3
Accruals and deferred income	**454.7**	441.8
	563.2	556.5

	2018	2017
	£m	£m
Non-current		
Deferred income	**234.0**	204.6

14. Financial liabilities – borrowings

	Group 2018	2017
Current	**£m**	£m
Overdrawn funds	**5.7**	5.9
Interest accruals	**2.4**	0.9
Bonds	**0.3**	0.3
Term loans	**21.7**	21.7
Finance lease obligations	**12.0**	10.5
	42.1	39.3

	Group 2018	2017
Non-current	**£m**	£m
Interest accruals	**48.8**	48.2
Bonds	**2,356.1**	2,014.0
Term loans	**488.5**	440.6
Finance lease obligations	**423.9**	436.0
	3,317.3	2,938.8

The parent company has no borrowings.

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

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

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

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

The Group's Class A Bonds of £1,008m (2017: £989m) benefit from a guarantee from Assured Guaranty (London) Ltd. Assured Guaranty's credit rating has been reduced to Baa2 and A by Moody's and Standard and Poor's respectively, and is not rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A2/A/A from Moody's, Standard and Poor's and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty, and is the same as the credit ratings of the Group's Class B bonds of £1,350m (2017: £1,023m).

15. Derivative financial instruments

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

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

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)

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.

15. Derivative financial instruments (continued)

Interest rate swaps
At 31 March 2018 an interest rate swap fixes the interest rate on £192m (2017: £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 (2017: £381m) of finance lease liabilities by reference to the Retail Prices Index ("RPI").

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2018 was £399m (2017: £400m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2018. 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	£399m amortising (2017: £400m amortising)
Average swap maturity	18 years (2017: 18 years)
Average interest rate	1.40% fixed plus RPI (2017: 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	£140m (2017: £135m)
Swap maturity	39 years (2017: 40 years)
Interest rate	1.35% indexed by RPI (2017: 1.35% indexed

16. Financial risk management

The policies of the company in respect of financial risk management are included in the accounting policies note on page 27. The numerical financial instrument disclosures as required by IFRS 7 are set out below.

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

	2018	2017
Assets:		
Cash and cash equivalents	**0.5%**	0.2%
Liabilities:		
Bonds	**4.1%**	4.3%
European Investment Bank loans	**0.6%**	0.5%
Local authority loans	**5.0%**	5.0%
Finance lease obligations	**0.6%**	0.7%

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

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

b) Liquidity risk

Group - 2018	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	277.4	-	-	-	277.4
Trade and other receivables	577.3	-	-	-	577.3
	854.7	**-**	**-**	**-**	**854.7**
Liabilities:					
Cash and cash equivalents	5.7	-	-	-	5.7
Bonds	0.7	0.7	327.1	2,035.4	2,363.9
European Investment Bank loans	21.6	29.1	155.0	304.0	509.7
Local authority loans	0.1	0.1	0.3	-	0.5
Finance lease obligations	12.0	13.5	32.8	377.6	435.9
Trade and other payables	563.3	5.2	15.6	213.1	797.2
Future interest payable	121.0	124.1	368.2	1,042.4	1,655.7
	724.4	**172.7**	**899.0**	**3,972.5**	**5,768.6**

16. Financial risk management (continued)

Liquidity risk

Group – 2017	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	70.4	-	-	-	70.4
Trade and other receivables	563.2	-	-	-	563.2
	633.6	-	-	-	**633.6**
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	556.6	1.8	4.9	197.9	761.2
Future interest payable	112.9	113.5	335.6	917.5	1,479.5
	708.3	**149.6**	**876.5**	**3,439.7**	**5,174.1**

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

	2018 £m	2017 £m
Gross finance lease liabilities		
Within one year	**15.9**	19.6
Between two and five years	**82.1**	99.2
After five years	**438.3**	439.6
	536.3	558.4
Future interest	**(100.4)**	(111.9)
Net finance lease liabilities	**435.9**	446.5
Net finance lease liabilities are repayable as follows:		
Within one year (note 14)	**12.0**	10.5
Between two and five years	**46.3**	57.4
After five years	**377.6**	378.6
Total over one year (note 14)	**423.9**	436.0

c) Fair values

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

	2018		2017	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bonds (note 14)	**2,363.9**	**3,171.2**	2,018.7	2,934.4

The fair values of all other financial instruments are equal to the book values. On 17 January 2018 the Group announced a benchmark – sized GBP Class B bond transaction. The bond proceeds of £300m were settled on 24 January 2018 with a maturity date of 31 March 2036 and a fixed coupon of 2.5%
The fair values of all other financial instruments are equal to the book values.

16. Financial risk management (continued)

d) Borrowing facilities

As at 31 March 2018, there were committed facilities for operating cash within the Group of £420m (2017: £460m), in respect of which all conditions precedents have been met at that date.

	2018	2017
	£m	£m
Expiring in less than 1 year:		
- term loan facility	**250**	60
Expiring in more than 1 year:		
- revolving credit facilities	**170**	150
- term loan facility	**-**	250
	170	400
	420	460

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 undrawn facilities comprise £170 million revolving credit facilities which are available until 2020 and a European Investment Bank loan facility of £250m, available until January 2019. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2018 there was also a special liquidity facility of £135 million (2017: £135 million); 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.

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

e) Capital risk management

Gearing ratios (Glas Cymru Holdings Cyfyngedig group)

	2018	2017
	£m	£m
Total borrowings	**(3,359)**	(2,978)
Less: cash and cash equivalents	**289**	101
Net debt	**(3,070)**	(2,877)
Regulatory capital value (RCV)	**5,468**	5,217
Total capital	**2,398**	2,340
Less: unamortised bond costs and swap indexation	**(48)**	(39)
Total capital per bond covenants	**2,350**	2,301
Gearing ratio	**57%**	56%

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

Under the Common Terms Agreement regulatory gearing is calculated as the level of net debt in the whole business securitisation relative to the regulatory capital value.

17. Provisions

Group - 2018	**Restructuring provision**	**Uninsured loss provision**	**Other provisions**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 April 2017	**4.0**	**4.3**	**2.5**	**10.8**
Charged to Income Statememt	-	**1.2**	-	**1.2**
Unused amounts reversed	-	-	**(0.1)**	**(0.1)**
Utilised in year	**(1.6)**	**(1.3)**	**(0.1)**	**(3.0)**
At 31 March 2018	**2.4**	**4.2**	**2.3**	**8.9**
Split as:				
Amounts to be utilised within one year	**1.0**	**1.3**	**0.1**	**2.4**
Amounts to be utilised after more than one year	**1.4**	**2.9**	**2.2**	**6.5**
At 31 March 2018	**2.4**	**4.2**	**2.3**	**8.9**

Group - 2017	**Restructuring provision**	**Uninsured loss provision**	**Other provisions**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 April 2016	5.9	3.9	4.7	14.5
Charged to Income Statememt	-	1.7	(0.2)	1.5
Utilised in year	(1.9)	(1.3)	(2.0)	(5.2)
At 31 March 2017	4.0	4.3	2.5	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	4.3	2.3	9.6
At 31 March 2017	4.0	4.3	2.5	10.8

The parent company had no provisions at 31 March 2018 (2017: none).

Restructuring provision
This provides for the cost of restructuring associated with a reduction in the headcount by around 360, pursuant to the restructuring plan for the five-year period 2015-2020 as a whole.

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

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

18. Net cash inflow from operating activities

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	Group 2018 £m	Group 2017 £m
Operating profit	**77.0**	104.7
Adjustments for:		
- Depreciation and amortisation	**275.8**	256.6
- Changes in working capital:		
Increase in trade and other receivables	**(14.0)**	(20.3)
Decrease in inventories	**(0.4)**	(0.7)
Increase in trade and other payables	**16.7**	6.3
Pension contributions above service cost	**(5.2)**	(6.3)
Decrease in provisions	**(1.9)**	(3.4)
	(4.8)	(24.4)
Cash generated from operations	**348.0**	336.9

b) Interest paid

	Group 2018 £m	Group 2017 £m
Interest payable per income statement	**175.9**	144.2
Less non-cash items:		
- Indexation on index-linked bonds	**(45.7)**	(24.8)
- Indexation on index-linked debt	**(9.6)**	(5.7)
- Amortisation of bond issue costs	**(0.3)**	(0.3)
- Interest charge on pension scheme liabilities	**(2.5)**	(1.8)
- Amortisation of bond issue premium	**0.7**	0.6
- Effect of capitalisation under IAS 23	**16.4**	9.5
- (Decrease)/increase in accruals	**(2.0)**	2.9
	(43.0)	(19.6)
Interest paid	**132.9**	124.6

19. 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	
	2018	2017
	£m	£m
Cash and cash equivalents	**277.4**	70.4
Debt due after one year	**(2,844.6)**	(2,454.6)
Debt due within one year	**(27.4)**	(27.9)
Finance leases	**(435.9)**	(446.5)
Accrued interest	**(51.2)**	(49.1)
	(3,359.1)	(2,978.1)
Net debt	**(3,081.7)**	(2907.7)

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

	Group	
	2018	2017
	£m	£m
Net debt at start of year	**(2,907.7)**	(2,808.1)
Movement in net cash	**207.0**	(64.7)
Movement in debt arising from cash flows	**(327.2)**	(3.4)
Movement in net debt arising from cash flows	**(120.2)**	(68.1)
Movement in accrued interest	**1.6**	(1.5)
Indexation of index-linked debt	**(55.3)**	(30.5)
Bond indexation adjustment		-
Other non-cash movements	**(0.1)**	0.5
Movement in net debt during the year	**(174.0)**	(99.6)
Net debt at end of year	**(3,081.7)**	(2,907.7)

20. Employees and directors

Staff costs for the Group during the year

a) Directors' emoluments

The aggregate emoluments of the Directors of Dŵr Cymru Cyfyngedig for their services as Directors of the Company are set out below:

	2018	2017
	£000	£000
Salary (including benefits in kind)	1,457	1,379
Fees	600	588
	2,057	2,267
Long term incentive plan	128	300
Highest paid director: Chris Jones (2017: Chris Jones)		
Aggregate emoluments	553	515
Accrued pension under defined benefit scheme	78	144
Long term incentive plan	48	114

Retirement benefits are accruing to two Directors (2017: two) under defined benefit schemes. None of the directors is a member of the defined contribution scheme (2017: none).

Remuneration payable to the Executive Directors in respect of the financial year ended 31 March 2018 was as follows:

- a base salary (which had been increased by 1.6% in April 2017) plus pension (or equivalent payments) and private health and permanent health benefits;
- under the AVPS 2017-2018 awards have been made equivalent to 22.8% of base salary for performance against the Customer and Compliance element of the scheme, 15.5% for Total Expenditure (Totex) Cost Performance and between 24.3% and 26.3% against Strategic (Annual Focus) and Personal Objectives, making a total award of between 62.6% and 64.6% of base salary for each Executive Director; and
- under the LTVPS, payment has been made for performance relating to the Customer Value element of the scheme: no amount is payable in respect of the Customer Value element of the scheme, which depends on the outcome of Ofwat's SIM performance measure.

Customer Service: The final outturn for Welsh Water's Service Incentive Mechanism (SIM Customer Service) performance in 2017-18 will not be known until later in the summer. However, we estimate that Welsh Water will be ranked joint 6th out of the ten water and sewerage companies which will mean there is no award payable this year for the Customer Service element of the award, calculated on a rolling three year average SIM basis. The award would be adjusted if the results required this.

Customer Value: a payment of 16% of salary (53.3% of the maximum for this element of the LTVPS) has been awarded under the scheme for the Customer Value element given the financial achievement in the period.

(Further details are provided in the 2018 Remuneration Report which forms part of Glas Cymru's 2018 annual report and consolidated financial statements.)

20. Employees and directors (continued)

b) Staff costs during the year

	2018	2017
	£m	£m
Wages and salaries	**125.2**	110.8
Social security costs	**13.2**	10.8
Other pension costs	**12.7**	12.8
	151.1	134.4

Of the above, £53.8m (2017: £48.3m) has been capitalised, being the investment cost of employees' work on the capital programme.

Average monthly number of people (including executive directors) employed by the Company	**2018 Number**	2017 Number
Regulated water and sewerage activities	**3,384**	3,091

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:

	2018	2017
	£m	£m
Executive Directors	**1.6**	1.9
Other key personnel	**1.7**	1.6
	3.3	3.5

21. 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 2018 and the principal assumptions made by the actuaries were:

	2018	2017
Discount rate	**2.8%**	2.8%
Inflation assumption	**3.1%**	3.2%
Rate of increase in pensionable salaries	**3.1%**	3.2%
Rate of increase in pensions in payment	**3.0%**	3.1%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	**87.1 years**	87.0 years
- Current pensioners aged 65 - females	**89.1 years**	89.0 years
- Future pensioners aged 65 (currently aged 45) - males	**88.4 years**	88.3 years
- Future pensioners aged 65 (currently aged 45) - females	**90.6 years**	90.5 years

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

21. Pension commitments (continued)

Changes in the defined benefit obligation are as follows:

	2018 £m	2017 £m
At 1 April	**497.3**	413.1
Current service cost	**0.3**	4.8
Interest expense	**13.5**	14.5
Remeasurement: loss from change in financial assumptions	**(8.7)**	90.3
Benefits paid	**(28.3)**	(25.4)
At 31 March	**474.1**	497.3

Changes in the fair value plan assets are as follows:

	2018 £m	2017 £m
At 1 April	**404.9**	358.6
Interest income	**11.0**	12.7
Expenses	**-**	(0.4)
Experience gains	**3.5**	47.0
Contributions	**6.9**	12.4
Benefits paid	**(28.3)**	(25.4)
At 31 March	**398.0**	404.9

Experience gains and losses are differences between the actual events as they have turned out and the asumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year.

	2018 £m	2017 £m
Present value of funded obligations	**(474.1)**	(497.3)
Fair value of plan assets	**398.0**	404.9
	(76.1)	(92.4)
EFRBS unfunded liability	**(4.3)**	(2.8)
Net defined benefit liability recognised in the balance sheet	**(80.4)**	(95.2)

The contributions paid in the year to 31 March 2018 include special contributions of £6.7m (2017: £7.2m). The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ending 31 March 2019 amount to £6.7m (2017: £6.7m).

	Change in assumption	Movement in Liabilities
Discount rate	0.10%	£8.9m
Price inflation	0.10%	£8.7m
Life expectancy	1 year	£12.5m

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

21. Pension commitments (continued)

EFRBS

During 2011, the Group 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 2018, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

22. Capital and other financial commitments

The Group's business plan at 31 March 2018 shows net capital expenditure and infrastructure renewals expenditure of £478m (2017: £406m) during the next financial year. While only a portion of this amount has been formally contracted for, the Group is effectively committed to a majority of the total as part of its overall capital expenditure programme approved by its regulator, Ofwat.

23. Related party transactions

During the year ended 31 March 2017 the parent company paid dividends totalling £30.2m to its parent company, Glas Cymru Holdings Cyfyngedig, of which it is a wholly-owned subsidiary.

A wholly-owned subsidiary of the Group, Dŵr Cymru Cyfyngedig, also paid costs during the year on behalf of two other members of the larger group headed by the ultimate parent undertaking, Glas Cymru Holdings Cyfyngedig: £300,458 in respect of Cambrian Utilities Limited and £69,684 in respect of Welsh Water Infrastructure Limited. These transactions have been reported as intercompany loans receivable.

24. Status of the company

The company is limited by guarantee and does not have any share capital. In the event of the company being wound up, the liability of the members is limited to £1 each.

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 2018 the market value of the trust fund was £115m (2017: £118m).

Interest receivable includes £2.8m (2017: £2.7m) 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 largest and smallest groups within which the results of the Company are consolidated are those headed by Glas Cymru Holdings Cyfyngedig and Glas Cymru Anghyfyngedig respectively. Both consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.