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Glas Cymru Cyfyngedig

Preliminary Results

2015

Foreword to the Preliminary Result Announcement

Basis of preparation

The following announcement of preliminary results includes information which has been extracted directly from the Glas Cymru Cyfyngedig Annual Report and Accounts for the year ended 31 March 2015.

The audited Annual Report and Account will be put to Members for approval at the Glas Cymru Cyfyngedig Annual General Meeting on 3 July 2015. The Annual Report and Accounts will be made available online at www.dwrcymru.com shortly afterwards.

The financial information does not constitute statutory accounts within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards (IFRS). The Company's auditors, PricewaterhouseCoopers LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2015. The auditors' report did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. The consolidated financial statements will be filed with the Registrar of Companies, subject to their approval by the Company's Members on 3 July 2015 at the Company's Annual General Meeting.

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

Chairman's Statement

Our sole purpose, as the owner of Dŵr Cymru Welsh Water, is to achieve the highest standards possible at the lowest possible cost. We are able to take this single-minded approach because unlike every other water company in England and Wales, we have no shareholders and after paying interest on our loan capital, we can spend and invest all our surpluses for the benefit of customers, present and future. (I emphasise "future" because some of what we invest may not directly benefit customers for many years.)

We are neither a co-operative nor an employee owned company. We are a private company providing public services but with no private interest in our profits.

I am therefore pleased to be able to report once again that we have kept average annual price increases below the level of inflation and achieved a very strong operational performance. Last year, we were again ranked joint second in the Ofwat league table for customer satisfaction.

Our major pre-occupation last year, in addition to our day to day operating performance, was to achieve the best possible outcome from the Ofwat five yearly price review, best that is from our customers' point of view. We were therefore pleased that our draft plan for Ofwat achieved a 94% approval rating from customers whom we consulted and that the final determination of Ofwat was so similar to our own plan. The effect of this will be that at the end of the new review period in 2020, Welsh Water will have reduced its bills in real terms for 10 consecutive years and with customers having historically faced some of the highest average bills in England and Wales (largely due to the wastewater element of the bill), we will have improved our relative position to be in the middle of the pack among our peers.

I am also pleased that we have recorded our best ever environmental performance and are now leading the industry with innovative approaches to some of the biggest challenges we all face - catchment management and sustainable drainage. We have achieved this whilst maintaining high quality drinking water, exceeding our leakage targets and reducing the number of pollution incidents to their lowest ever level.

Our company is not managed by our customers but it is managed for our customers. Decisions are taken by the Directors and Members of the company. It is therefore vitally important that the quality of Members, Directors and managers is of the highest level. We were delighted to appoint Peter Bridgewater as Finance Director in September 2014. Peter has extensive commercial and financial industry experience having held a number of senior roles at several companies. And we were very pleased to attract and appoint 14 new Members who will succeed Members who have now retired after up to nine years' service. On behalf of the Board, I wish to thank all of the retired Members for their contributions.

We have lost a very great friend and stalwart of Glas and Dŵr Cymru, John Bryant, who stepped down as Non-Executive Director at the Annual General Meeting in July 2014. John had been a member of the Glas Cymru Board since it was established in 2001, during which time he served variously as chairman of the Remuneration Committee, chairman of the Quality and Environment Committee, the Senior

Independent Director and also, temporarily, as Chairman (May – September 2014) when he substituted for me during my wife's illness. We are grateful for the wealth of experience and commitment he brought to the company. His significant contribution played a key part in helping us demonstrate that the Glas ownership model - where all financial gains go to customers, not shareholders - can work well to deliver the most essential of public services to our customers.

We end the year in a strong position, and whilst we are pleased with this progress, we have set targets that demand even higher standards. We know that there are significant strategic and operational challenges ahead that require an extensive programme of organisational change so that we are best placed to deliver the ambitious targets set for 2015 to 2020.

We intend to build on our success and become an industry-leader in our field and to push at the boundaries of what it means to be a truly customer-led water and sewerage company. This Annual Report demonstrates why we can look to the future with confidence.

Credit for the success of the past year is due to the contributions of all the employees, Members, managers and my colleagues on the Board of Dŵr Cymru, to all of whom I am immensely grateful.

Robert Ayling
Chairman

Chief Executive's Review

Our vision is to earn the trust of our customers every day by delivering a safe, reliable and high quality supply of drinking water at an affordable price, whilst also safeguarding our environment. Against this demanding backdrop, the past year has been an important and successful year for Welsh Water as we have overcome some tough challenges. Overall, our services to customers have improved further although there remain aspects where we are determined to do better in the future.

We need to balance the priorities of our day-to-day operations whilst also preparing to meet additional strategic challenges in the long term. As a company owned on behalf of its customers, they have remained at the heart of everything we do. In shaping our Business Plan for 2015 to 2020 (as the water industry operates on a regulatory five year cycle), we have listened to the views of representatives of the three million people we serve across our supply area - most of Wales, Herefordshire and parts of Deeside - through an unprecedented programme of customer engagement, with a 94% acceptability level of our plans.

Performance

Teams across the company have worked very hard to improve on last year's record performance. As shown in our Operational Performance Scorecard for 2014-15 (page 12), we can report another year of solid progress as we delivered our best ever performance in some areas, but we remain committed to achieving even higher standards of customer service in the future whilst safeguarding the environment.

We know that providing high quality drinking water is our most important responsibility and our customers have continued to receive a high quality overall service in 2014. We are pleased that we did not record any regulatory bacteriological sample failures at our water treatment works throughout last year and we connected several new water treatment works across Wales to our network as part of a £120 million investment in this area. Alongside water efficiency, managing leakage remains important in terms of maintaining supplies and I am pleased that we have managed to reduce leakage beyond the target this year. Our priorities now are to address aspects of relatively poor performance in our water network, for example interruptions to water supply and the aesthetic quality of drinking water in some of the areas that we serve.

Sustaining and enhancing the environment are crucial to the long-term sustainability of our services, and our wastewater performance improved further in 2014 with our best ever environmental performance. We recorded our lowest ever number of pollution incidents and our wastewater treatment works continued to perform well, reflecting increased investment in recent years.

The area that we serve is home to some of the most beautiful coastal regions of the UK and so tourism is important to the local economy. We have seen a 26% increase in the number of designated bathing waters in Wales since 2010 and, in 2014, our environmental performance helped ensure that all our beaches passed the minimum standard required by the European Bathing Water Directives; with nearly 90% of the beaches passing the higher guideline (Blue Flag) standard, including Llyn Padarn, Wales' first designated freshwater bathing lake.

Our plans recognise that alone we cannot deliver the scale of required environmental improvement at an acceptable level of cost. This is why we welcome the Welsh Government's Water Strategy for Wales that supports our increased focus on catchment activity so that we can improve water quality before it arrives at our treatment works. These plans include initiatives such as innovative catchment monitoring work which seeks to address pesticides in river water at source (see page 31 for further details).

Sustainability

As one of the largest energy users in Wales, we have continued to develop several key renewable energy projects over the past 12 months to help us power our sites more sustainably and to reduce bills for our customers. This includes launching a £24 million Energy Park project at our largest wastewater treatment works in North Wales (Five Fords near Wrexham) which will lead to multiple renewable energy technologies located at this one site. We have also invested £20 million to purchase a number of hydro-electric generation schemes on some of our largest reservoirs. This has enabled us to double our renewable energy generation to over 20% of the energy we use and will play a key part in helping us deliver our long-term aspirations.

With more extreme weather forecast due to climate change, plus the growing pressures from urbanisation and development, we need a long-term strategy to manage the problem of overloaded sewers, in a more sustainable way. Between 2013 and 2015, we invested £15 million in the Llanelli and Gowerton areas on a ground-breaking programme of sustainable drainage projects. Such 'RainScape' projects are designed to manage the flow of surface water entering our sewer network. These schemes are helping to protect communities from sewer flooding and they also protect environmental water quality. We are making excellent progress in reducing the volume of surface water flows in our network. We now plan to invest £60 million in these techniques across our area between 2015 and 2020 so that we can deal with the escalating problem of flooding, resulting from climate change, in a truly sustainable way.

Customer service

In line with our vision to earn the trust of our customers every day, our unwavering focus is to continually improve the services we provide to our customers. We are amongst the industry leaders in terms of customer service and we continue to implement a wide range of initiatives to improve how we can serve and inform our customers; for instance, we launched a new billing system in February 2015 which will enable a wider range of customer service options in the future. We welcomed the Consumer Council for Water's (CCWater) latest annual findings that we had the second lowest volume of customer complaints for 2013-14 amongst the 10 water and sewerage companies. Its annual tracker research in 2014 confirmed that we scored a record 96% customer satisfaction rate with our water services and 91% with our wastewater services. This was amongst the highest in the industry. Our regular research shows around a 90% satisfaction rate amongst our business customers.

Affordable bills

Our operating area has one of the highest proportions of disadvantaged households in England and Wales. This is why reducing customer bills in real terms whilst also maintaining and improving our services continues to be a key priority for us. Our water and wastewater services currently cost households around £1.20 a day on average. We believe this represents value for money but we plan to do more by delivering a decade of below inflation price increases by 2020. In response to real problems of affordability for our more disadvantaged customers, we will be offering a new social tariff

(HelpU) from April 2015 that will aim by 2020 to help more than 100,000 customers who struggle to pay their water and sewerage bills. Our industry-leading approach to social tariffs has been enabled by our non-shareholder owned model. This goes well beyond the support offered by any other water company and was supported by 75% of our customers in independent research.

Innovation and efficiency

Looking to the future, we need to be more innovative in the way we approach business challenges, adopting more dynamic solutions where we can. This is why we have developed a 25 year Innovation Strategy that sets out how we will drive innovation across the company. This will build on the success of current activity such as our approach to catchment management, which is working to the long-term benefit of our customers and the environment.

We continue to benchmark ourselves internationally and develop partnerships with other leading international water companies such as Oasen Drinkwater in Holland. We encourage employee exchanges between our two companies so that we can learn from each other and implement best practices. We also arranged our first ever Innovation conference in October where existing business partners, academia and other companies put forward innovative ideas that will help us provide a better, more sustainable service to our customers in the years to come. Being open to new ideas and thinking has also enabled us to create our new Capital Delivery Alliance, which brings Welsh Water colleagues and our new capital partners into one team at a single location as described on page 51. This new Alliance creates a collaborative working environment to help foster innovation and drive value in the design and delivery processes, so that we can improve our services and reduce overall costs.

Financial performance

In 2014-15, our financial performance was good. Total revenue increased by 2.2% to £753 million. The consolidated income statement on page 102 shows a loss before taxation of £100 million (2014: profit of £145 million) which has principally been caused by non-cash movements in the market value of derivative financial instruments. Our underlying Group profit before tax increased to £77 million (2014: £50 million). Our bad debt charge for the year of £29 million (2014: £28 million) represents 3.9% of annual turnover. Our customer reserves now stand at nearly £2 billion, having grown more than ten-fold since Glas Cymru acquired Welsh Water in 2001. Our financial gearing ratio (net borrowings expressed as a percentage of our regulated capital value) is now down to 60% - from 93% in 2001 – and we have the best credit ratings in the utilities sector.

Shaping the future

Our customer-led Business Plan, with its ambitious pricing limits and record levels of investment, presents us with a major challenge for the next five years. Reducing our costs and also achieving stretching performance targets necessitates the reshaping of our core business into three business units (Water, Wastewater and Retail) which will need to work ever more closely to deliver the best joined-up customer service. With the continued commitment of my colleagues, I am confident that we will rise to the challenge of delivering industry-leading levels of financial and operational performance to ensure that we realise our vision of earning the trust of our customers every day.

Our people

We are all committed to delivering the highest levels of service to our customers, with colleagues turning out in all weather conditions to help maintain services to our customers and to protect the environment. The health and safety of our staff is therefore paramount and I am glad that we had the lowest level of reportable accidents in 2014-15. With our internal employee engagement survey this year showing that our employee engagement index remains high at 74% - which is above the private sector average and also achieved during a period of major organisational change for the business. I want to thank everyone for their dedication and continued hard work during the year.

Chris Jones
Chief Executive

Finance Director’s Report

Financial Performance

Glas Cymru Cyfyngedig is the holding company for the Glas Cymru Group and parent of the operational company Dŵr Cymru Cyfyngedig. Dŵr Cymru has delivered a strong financial performance during the year to 31 March 2015; gearing has fallen to 60% (2014: 63%) and the Company has retained its sector leading credit ratings.

While the Group’s unique ownership structure allows it to be run for customer benefit, as opposed to Shareholder profit, we set ourselves challenging targets to ensure we continue to improve the efficiency of our operations. Since 2001, we have reduced our regulated operating costs by 20% in real (pre inflation) terms and are planning further reduction in controllable costs of around 20% by 2020.

Revenue

Glas Cymru’s turnover in the year to 31 March 2015 was £753 million (2014: £737 million), primarily reflecting the regulated average price increase of 2.05%. Additional revenue from new customers has been offset by household customers switching to metered charging, which usually results in a lower water bill. The number of customers signed up to our sector-leading range of customer assistance tariffs has continued to increase. As at 31 March 2015 some 50,000 were benefiting from one of these tariffs or our Customer Assistance Fund – which support those who have difficulty paying their bills - at an annual cost to the Company of some £4 million.

Operational items

Glas Cymru incurred total operational costs (excluding infrastructure renewal expenditure on maintaining our underground pipe network, depreciation and exceptional items) of £295 million (2014: £296 million); a number of specific cost increases (power costs, wastewater compliance costs, private sewers expenditure) have been offset by driving efficiency savings from streamlining recruitment, the insourcing of operational contracts, reductions in insurance charges and business rates rebates.

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 2014-15 rose to £44 million (2014: £43 million) principally as a consequence of electricity price increases. 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 five years to March 2020.

Customer debt recovery remained a high priority for Dŵr Cymru. In a difficult economic environment, in which water companies have no sanction to disconnect supplies to non-paying domestic customers, cash collection has continued to be challenging. The bad debt charge for the year of £29 million (2014: £28 million) represents 3.9% of annual turnover (2014: 3.9%) and will be an area of increased focus for us over the coming year.

Exceptional items

As part of our drive to cut controllable operating costs by around 20% over the next five years, a redundancy and severance programme has been announced which will reduce the number of people employed in the business by around 360 colleagues. The estimated £18 million cost of this commitment has been provided for during the year.

Financing costs

Net interest payable of £145 million (excluding accounting losses on derivatives noted below) was £10 million lower than the previous year. This is the result of lower RPI inflation on index-linked bonds (£10 million) and an £8 million accounting profit on termination of finance leases, offset by an £8 million charge to terminate inflation linked interest swaps which were no longer required.

Glas Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt and, while these are effective commercial hedges, they do not qualify for hedge accounting under IAS 39. Changes in market values create volatility in the income statement and fair value losses in 2014-15 amounted to £157 million (2014: gains of £94 million). There is, however, no impact on cash flows: the company intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such losses will revert to zero.

Underlying Profit

The underlying profit before tax was £77 million (2014: £50 million). The consolidated income statement shows a loss before taxation of £100 million (2014: profit of £145 million) which takes into account the fair value and one-off finance movements as well as exceptional items as discussed above.

Pension funding

The statement of comprehensive income reports defined benefit pension scheme actuarial losses of £32 million (2014: gains of £25 million) and the balance sheet liability as at 31 March 2015 was £33 million (2014: £3 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 2013, projected a small deficit recoverable by payments of £1 million per annum until 2018. Plans are in place to mitigate exposure to any significant additional future liabilities via the closure of most sections of the scheme with effect from 1 April 2017.

Net liabilities

The consolidated balance sheet shows net liabilities of £6 million at 31 March 2015 (2014: net assets of £100 million). Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Group has net assets of £416 million (2014: £365 million).

Going Concern

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2015 have been prepared on a going concern basis.

Capital investment

Glas Cymru's strong financial position has been built up over the last 14 years, and provides a stable base from which it can respond positively to the challenges of economic uncertainty and drive forward its continuing large capital programme.

Glas Cymru works with an alliance of partners to deliver the capital investment programme at the best value for money for customers. Total capital expenditure by Welsh Water during the year including infrastructure renewals expenditure) was £379 million (2014: £354 million) and we invested around £1.5 billion over the five year period from 2010 to 2015. This investment programme has brought sustained improvements in customer service, drinking water quality and the environment. The Group plans to invest a further £1.7 billion over the course of the next five years, our largest ever investment programme.

Credit ratings and interest rate management

Glas Cymru has the strongest credit ratings in the water sector, reflecting the Company's high level of creditworthiness. The ratings of the Company's Class A and B debt at 31 March 2015 were A/ A3/A from Standard & Poor's (S&P), Moody's and Fitch Ratings.

As at 31 March 2015, approximately 65% of gross debt was index-linked via bonds and derivatives (2014: 65%), with the remainder at fixed interest rates. The expected maturity of the outstanding fixed-rate and index linked bonds ranges from 2021 to 2057, with not more than 20% falling due in any two-year period, in accordance with our refinancing policy.

Gearing policy

Glas Cymru's gearing 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 low risk profile giving the Company access to low cost financing throughout AMP6 and beyond.

Liquidity and financial reserves

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

On Glas Cymru's acquisition of Welsh Water in May 2001, gearing (net debt/Regulatory Capital Value) stood at 93%. Since then, the financial position has improved steadily. Gearing to RCV has fallen to 60% by 31 March 2015 (2014: 63%) and 'financial reserves' (RCV less net debt) were £1.9 billion.

As at 31 March 2015, the Company had available total liquidity of £338 million, including cash balances of £148 million. With funding already in place for the early years of AMP6, we will seek to raise additional finance of around £500 million over the course of the AMP6 period to March 2020.

Consolidated Income Statement for the year ended 31 March 2015

			2015		2014
Continuing activities	Note	£m	£m	£m	£m
Revenue			752.5		736.5
Operating costs:					
- Operational expenditure			(294.7)		(296.4)
- Exceptional items	2		(19.5)		-
- Infrastructure renewals expenditure			(57.7)		(71.8)
- Depreciation and amortisation			(178.5)		(163.7)
			(550.4)		(531.9)
Operating profit			202.1		204.6
Financing costs:					
- Finance costs payable and similar charges	3a	(147.9)		(160.6)	
- Finance income receivable	3a	3.3		6.3	
- Fair value (losses)/gains on derivative financial instruments	3b	(157.1)		94.2	
			(301.7)		(60.1)
(Loss)/profit before income tax			(99.6)		144.5
Taxation			19.5		10.8
(Loss)/profit for the year			(80.1)		155.3

Underlying profit for the year

	2015 £m	2014 £m
(Loss)/profit before taxation per Income Statement	(99.6)	144.5
Adjustment for:		
- Fair value losses/ (gains) on derivative financial statements (see note 3b)	157.1	(94.2)
- Swap terminations (see note 3a)	8.5	-
- Accounting profit on termination of leases (see note 3a)	(8.4)	-
- Exceptional items (see note 2)	19.5	-
Underlying profit for the year	77.1	50.3

Consolidated Statement of Comprehensive Income for the year ended 31 March 2015

	2015 £m	2014 £m
(Loss)/profit for the year	(80.1)	155.3
Items that will not be reclassified to profit or loss		
Actuarial (loss)/gain recognised in the pension scheme	(32.2)	24.9
Movement on deferred tax asset relating to pension scheme	5.9	(5.8)
Total comprehensive (expense)/income for the year	(106.4)	174.4

Consolidated Statement of Changes in Reserves for the year ended 31 March 2015

	2015	2014
	£m	£m
Balance as at 1 April	100.0	(74.4)
Total comprehensive (expense)/income for the year	(106.4)	174.4
Balance at 31 March	(6.4)	100.0

Consolidated Balance Sheet as at 31 March 2015

	Note	2015	2014
			£m
Assets			
Non-current assets			
Property, plant and equipment	4	3,578.4	3,442.3
Intangible assets	5	100.6	83.9
		3,679.0	3,526.2
Current assets			
Trade and other receivables	6	532.6	526.7
Inventories		2.0	2.3
Financial assets:			
- derivative financial instruments		3.7	3.7
Cash and cash equivalents		148.0	94.4
		686.3	627.1
Total assets		4,365.3	4,153.3
Liabilities			
Current liabilities			
Trade and other payables		(539.3)	(535.5)
Financial liabilities:			
- borrowings	7	(28.5)	(30.6)
- derivative financial instruments		(21.5)	(32.3)
Provisions for other liabilities and charges		(6.1)	(4.6)
		(595.4)	(603.0)
Net current assets		90.9	24.1

Consolidated Balance Sheet as at 31 March 2015 (Continued...)

Non-current liabilities			
Trade and other payables	13	(99.8)	(80.2)
Financial liabilities:			
- borrowings	7	(2,998.4)	(2,879.3)
- derivative financial instruments		(404.3)	(236.4)
Post-employment benefits		(32.5)	(2.8)
Provisions for other liabilities and charges		(21.5)	(10.3)
		(3,556.5)	(3,209.0)
Net assets before deferred tax		213.4	341.3
Deferred tax - net		(219.8)	(241.3)
Net (liabilities)/assets		(6.4)	100.0
(Deficit)/reserves		(6.4)	100.0

Consolidated Cash Flow Statement for the year ended 31 March 2015

	2015	2014
	£m	£m
Cash flows from operating activities		
Cash generated from operations	381.0	351.8
Interest paid	(123.5)	(174.7)
Income tax received	1.6	-
Net cash generated from operating activities	259.1	177.1
Cash flows from investing activities		
Interest received	3.2	6.3
Purchase of property, plant and equipment	(266.6)	(227.4)
Acquisition of subsidiary	(19.7)	-
Purchase of intangible assets	(25.2)	(55.5)
Grants and contributions received	16.3	14.6
Net cash outflow from investing activities	(292.0)	(262.0)
Net cash outflow before financing activities	(32.9)	(84.9)
Cash flows from financing activities		
Long term loans received	160.0	75.0
Term loan repayments	(15.9)	(13.5)
Finance lease principal payments	(57.4)	(39.4)
Other loan repayments	(0.2)	(0.2)
Net cash inflow from financing activities	86.5	21.9
Increase/(decrease) in cash and cash equivalents	53.6	(63.0)
Cash and cash equivalents at 1 April	94.4	157.4
Cash and cash equivalents at 31 March	148.0	94.4

Notes to the financial statements

1. a) Basis of preparation

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

The financial information on pages 11 to 24 is extracted from the Group's consolidated financial statements for the year ended 31 March 2015, which were approved by the Board of Directors on 5 June 2015.

The financial information does not constitute statutory accounts within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards (IFRS). The Company's auditors, PricewaterhouseCoopers LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 March 2015. The auditors' report did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. The consolidated financial statements will be filed with the Registrar of Companies, subject to their approval by the Company's Members on 3 July 2015 at the Company's Annual General Meeting.

Glas Cymru is a company Limited by Guarantee. Our Members are a key element of our corporate structure, fulfilling the valuable role that shareholders would play in corporate governance. Its principal activity is the supply of water and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

1. b) Basis of consolidation

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

The Group's annual financial statements are drawn up to 31 March. These financial statements cover the year ended 31 March 2015 with comparative amounts for the year ended 31 March 2014.

2. Exceptional items

On 22 March 2015 Glas Cymru announced a Selective Voluntary Severance Scheme as part of the AMP6 change programme in order to assist the business in meeting Ofwats's Final Determination of revenue controls for the period from April 2015 to March 2020. As a consequence £17.6 million of restructuring costs were considered exceptional by nature and are disclosed separately in the financial statements.

A credit of £2.1 million relates to the release of unutilised provision in respect of a previous programme of restructuring. A further £4.0 million exceptional charge has arisen following the write-off of goodwill arising on the acquisition of Hydro assets through an asset purchase vehicle (see note 10). In total, this gives rise to an exceptional charge for the period of £19.5 million.

3. Financing costs

a) Finance cost before fair value (losses)/gains on derivative financial instruments

	2015	2014
	£m	£m
Interest payable on bonds	(87.2)	(86.3)
Indexation on index-linked bonds	(28.6)	(38.5)
Interest payable on finance leases (including swaps to RPI)	(21.7)	(27.7)
Other loan interest	(13.0)	(12.3)
Other interest payable and finance costs	(3.2)	(2.4)
Net interest charge on pension scheme liabilities	(0.1)	(1.3)
Accounting profit on termination of leases	8.4	-
Swap terminations	(8.5)	-
Capitalisation of borrowing costs under IAS 23 (2015: 5.3%; 2014: 5.7%)	6.0	7.9
	(147.9)	(160.6)
Finance income	3.3	6.3
Net finance cost before fair value adjustments	(144.6)	(154.3)

During the year, three finance leases were terminated resulting in a profit of £8.4 million

b) Fair value (losses)/gains on derivative financial instruments

	2015	2014
	£m	£m
Fair value (losses)/gains on interest rate swaps	(36.7)	22.6
Fair value of index-linked swaps terminated	8.2	-
Fair value (losses)/gains on index-linked swaps	(128.6)	71.6
Total fair value (losses)/gains on derivative financial instruments	(157.1)	94.2

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.

Three interest rate swaps were terminated on 31 March 2015 at a cost of £8.5 million.

4. Property, plant and equipment

	Freehold land & buildings	Infrastructure assets	Operational structures	Plant, equipment, computer hardware	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2014	36.8	1,735.8	3,307.3	252.8	5,332.7
Additions net of grants and contributions	0.7	53.9	242.6	5.1	302.3
At 31 March 2015	37.5	1,789.7	3,549.9	257.9	5,635.0
Accumulated depreciation					
At 1 April 2014	18.7	262.6	1,363.4	245.7	1,890.4
Charge for the year	0.4	27.8	130.6	7.4	166.2
At 31 March 2015	19.1	290.4	1,494.0	253.1	2,056.6
Net book value					
At 31 March 2015	18.4	1,499.3	2,055.9	4.8	3,578.4

The net book value of property, plant and equipment includes £98.0 million in respect of assets in the course of construction (2014: £126.0 million).

The net book value of property, plant and equipment includes £33.4 million of borrowing costs capitalised in accordance with IAS 23 (2014: £28.8 million), of which £5.6 million were additions in the year (2014: £7.2 million).

5. Intangible assets

Intangible assets comprise computer software and related system developments.

6. Trade and other receivables

	2015 £m	2014 £m
Current		
Trade receivables	527.9	502.8
Provision for impairment of receivables	(78.9)	(65.9)
Trade receivables - net	449.0	436.9
Prepayments and accrued income	74.3	67.4
Other receivables	9.3	22.4
Total trade and other receivables	532.6	526.7

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

As at 31 March 2015, based on a review of historical collection rates it was considered that £78.9 million (2014: £65.9 million) of trade receivables were impaired and these have therefore been provided for.

7. Financial liabilities – borrowings

Current

	2015	2014
	£m	£m
Interest accruals	6.0	0.9
Unamortised bond premium	0.6	0.6
Unamortised bond issue costs	(0.3)	(0.3)
European Investment Bank loans	11.6	15.9
Local authority loans	0.3	0.3
Finance lease obligations	10.3	13.2
	28.5	30.6

Non-current

	2015	2014
	£m	£m
Interest accruals	52.8	49.2
Bonds	2,005.5	1,976.8
Unamortised bond premium	7.3	7.9
Unamortised bond issue costs	(4.7)	(5.1)
KfW Bank loan	35.0	35.0
European Investment Bank loans	405.0	256.6
Local authority loans	0.6	0.8
Finance lease obligations	496.9	558.1
	2,998.4	2,879.3

8. Analysis and reconciliation of net debt

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

	2015 £m	2014 £m
Cash and cash equivalents	148.0	94.4
Debt due after one year	(2,448.7)	(2,272.1)
Debt due within one year	(12.2)	(16.5)
Finance leases	(507.2)	(571.2)
Accrued interest	(58.8)	(50.1)
	(3,026.9)	(2,909.9)
Net debt	(2,878.9)	(2,815.5)

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

	2015 £m	2014 £m
Net debt at start of year	(2,815.5)	(2,737.5)
Movement in net cash	53.6	(63.0)
Movement in debt arising from cash flows	(86.5)	(21.9)
Movement in net debt arising from cash flows	(32.9)	(84.9)
Movement in accrued interest	(8.8)	39.7
Indexation of index-linked debt	(28.6)	(38.5)
Accounting profit on lease termination	8.4	-
Other non-cash movements	(1.5)	5.7
Movement in net debt during the year	(63.4)	(78.0)
Net debt at end of year	(2,878.9)	(2,815.5)