

Registered N^o: 2366777

Dŵr Cymru Cyfyngedig

Annual report and financial statements
for the year ended 31 March 2015

WEDNESDAY



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COMPANIES HOUSE

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Foreword

These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2015. The company's immediate parent company is Dŵr Cymru (Holdings) Limited. The entire share capital of Dŵr Cymru (Holdings) Limited is owned by Glas Cymru (Securities) Cyfyngedig. The ultimate holding company and controlling party is Glas Cymru Cyfyngedig, a company registered in England and Wales.

Full details and analysis of the operational performance of Dŵr Cymru Cyfyngedig during the year to 31 March 2015 is included in the published report and financial statements for Glas Cymru Cyfyngedig.

Directors and advisers

Directors

Robert Ayling
Peter Bridgewater
Chris Jones
Peter Perry
John Bryant
James Strachan
Prof Stephen Palmer
Menna Richards
Anna Walker
John Warren
Graham Edwards

Chairman
Finance Director (appointed 1 September 2014)
Chief Executive Officer
Chief Operating Officer
Non-executive Director (resigned 4 July 2014)
Non-executive Director (resigned 3 July 2015)
Non-executive Director
Non-executive Director
Non-executive Director
Non-executive Director
Non-executive Director

Company Secretary

Nicola Williams

Independent auditors

PricewaterhouseCoopers LLP
Cardiff

Solicitors

Linklaters LLP
London

Principal bankers

National Westminster Bank Plc
Brecon

Strategic report for the year ended 31 March 2015

The directors present the strategic report of Dŵr Cymru Cyfyngedig for the year ended 31 March 2015.

Principal activities

The principal activities of the company 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

Dŵr Cymru's 2014-15 financial performance was good. Total revenue increased by 2.2% to £753 million (2014: £737 million). The income statement shows a loss before taxation of £8 million (2014: profit of £115 million) which has principally been caused by non-cash movements of a loss of £65m in the market value of derivative financial instruments (2014: gain of £65m). The bad debt charge for the year of £29 million (2014: £28 million) represents 3.9% of annual turnover. "Customer reserves" (the company's regulatory capital value less net debt) now stand at nearly £2 billion.

The strong operational performance and financial position bring significant benefits to the three million people Dŵr Cymru serves across most of Wales, Herefordshire and Deeside while also safeguarding the environment as it embarks on a new five year £1.7 billion investment programme.

The performance reflects the efficient way the company is managing costs while continuing to improve services to customers. This includes delivering its best ever environmental performance thanks to investment at its wastewater treatment works and sewer network. These play an essential role in protecting the environment and improving bathing water quality and the investment helped Wales secure 34 Blue Flags. It also helped Wales' first designated freshwater bathing lake - Llyn Padarn near Llanberis - secure 'excellent' water quality.

The financial performance also reflects how the company is embedding new, innovative approaches to further improve customer service and environmental performance. These include:

- Introducing a new and innovative social tariff, called HelpU, which will benefit up to 100,000 customers. This in turn will help to achieve lower levels of bad debt for the company and ensure we continue to provide more help to customers struggling to pay than any other water company in the sector.
- The successful roll-out of the urban drainage scheme, Rainscape, in Llanelli and Gowerton which offers an innovative and sustainable solution to tackle urban flooding. The company has already invested £15 million in the scheme and a further £60 million has been allocated for similar schemes around Wales between now and 2020.
- Work to improve water catchment management to reduce the amount of grassland herbicides entering water sourced for drinking water purposes. Water with herbicide remnants requires additional treatment which can be costly. More than 100 farmers have already signed up to help Welsh Water as part of the company's Weed Wiper initiative.
- Developing a new 'smart network'. This will help the company to predict more accurately where blockages and bursts might occur on networks, and so reduce the likelihood – and associated cost – of this happening.
- Continuing to strengthen the resilience of its drinking water network which will include investing around £30 million in Bryn Cowlyd Water Treatment Works near Dolgarrog, which serves Llandudno, Colwyn Bay and the surrounding area.

Future developments

Dŵr Cymru's customer-led Business Plan, with its ambitious pricing limits and record levels of investment, presents a major challenge for the next five years. Reducing our costs and also achieving stretching performance targets necessitates the reshaping of the core business into three business units (Water, Wastewater and Retail) which will need to work more closely to deliver the best joined-up customer service.

Financial key performance indicators

The company is part of a group controlled by Glas Cymru Cyfyngedig. The directors of Dŵr Cymru Cyfyngedig 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 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).

Strategic report for the year ended 31 March 2015 (cont'd)

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 Cyfyngedig's Annual Report and Accounts.

By order of the Board



N Williams
Company Secretary

1 September 2015

Directors' report

The Board has prepared a strategic report (page 4) which provides a summary of the development and performance of the company's business in the year ended 31 March 2015 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 2015 on pages 11 to 43.

Directors and employees

The directors who held office during the year and up to the date of signing the financial statements are listed on page 3.

A key part in delivering continuous improvement in the performance of the business and the level of service received by Dŵr Cymru Cyfyngedig's customers is our ongoing investment in our people at all levels. We are committed to equality of opportunity and aim to treat all employees fairly in every aspect of employment including recruitment, training, career development and promotion. Those who seek employment with Dŵr Cymru Cyfyngedig are considered solely on their skills and abilities. We believe all employees should have the opportunity to maximise their potential and individual training and development needs are assessed as part of an annual development review that applies to all our employees.

At 31 March 2015 Dŵr Cymru Cyfyngedig had 2,525 employees (2014: 2,448). Our success is dependent upon our having a highly committed and motivated work force, we are engaging with employees and developing the talent and core competence of the business.

The company is committed to employment policies which follow best practice, based on equal opportunities for all employees irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining if necessary.

Occupational health and safety

We are committed to high standards of occupational health and safety and detail of our health and safety strategy and performance is provided in our 2015 Occupational Health and Safety Report which is available on our website.

Research and development

Our research and development work has focused on two main areas, developing and deploying new technology and understanding our impact on the environment and how best to mitigate this. Our Independent Environmental Advisory Panel made up of regulators, academics and environmental stakeholders continues to advise the business on research and environmental matters. The Panel has also been instrumental in assisting us with the design of our research proposals for the next investment period. The Panel has helped us tap into the expertise and resources available in such bodies and build our relationships with them. More generally, we have driven elements of the national research and development agenda by participation in water industry research initiatives, most notably through membership of UK Water Industry Research Limited which manages and coordinates the research interests of UK water companies. We have also held two annual innovation workshops, involving a wide range of universities, technology companies, suppliers and others to develop our 25-year innovation strategies for water, wastewater and customer services.

Greenhouse gases

The release of greenhouse gases has an impact on climate change which, either directly or indirectly, presents considerable risks both to the business and the environment. The company seeks to reduce its releases of greenhouse gases where possible. In 2007, as part of its Strategic Direction statement Welsh Water set itself the targets of reducing operational carbon emissions by 25% by 2015 and by 50% by 2025 from the 2007/08 levels. Our energy use (mainly from Grid electricity) accounts for around 85% of operational carbon emissions and is our second largest operating cost (after people). Almost all of this comes from the operational businesses. Our entire offices and transport fleet account for less than 5% of the annual total emissions between them.

Directors' report (cont'd)

Corporate social responsibility

We have a firm commitment to environmental responsibility and to being a good neighbour and a trusted partner in the communities we serve. To earn this trust we have to show that we behave fairly and responsibly in the interests of customers, that we use resources wisely, and that we make an appropriate contribution to community. Examples from 2014-15 include our education centres, Rainscape and Stop the Block campaigns, also a wide range of ecological and biodiversity related projects such as work to regenerate upland peat bogs and protect the quality of our raw water sources.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effect of changes in debt market prices, credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

Dividend

The directors do not propose the payment of a dividend (2014: nil).

Welsh Language Scheme

We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an equally effective standard of service in both languages. We operate an approved Welsh Language Scheme under the provisions of the Wales Language Act 1993.

Regulatory accounts

Condition F of the Instrument of Appointment, under which Dŵr Cymru Cyfyngedig operates, requires that Dŵr Cymru Cyfyngedig publish additional financial information as an 'appointed business'. A copy of this information has been published on Dŵr Cymru Cyfyngedig's website and is also available on request from the Company Secretary.

Disclosure of information to auditors

PricewaterhouseCoopers LLP acted as auditors to Dŵr Cymru Cyfyngedig for the financial statements for the year ended 31 March 2015. As part of the audit process each director has confirmed, as at the date of the financial statements, that as far as the director is aware (a) there is no relevant audit information of which the company's auditors are unaware, and (b) they have taken steps to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

KPMG LLP will be proposed as the company's auditor for the financial year ending 31 March 2016 and a resolution relating to this appointment will be put to the company's members.

By order of the Board



N Williams
Company Secretary

1 September 2015

Statement of directors' responsibilities

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 financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board



N Williams
Company Secretary

1 September 2015

Independent auditors' report to the members of Dŵr Cymru Cyfyngedig

Report on the financial statements

Our opinion

In our opinion, Dŵr Cymru Cyfyngedig's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements comprise:

- the Balance sheet as at 31 March 2015;
- the Income statement and the Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the *notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.*

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Dŵr Cymru Cyfyngedig (cont'd)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report



Katharine Finn (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

1 September 2015

Income statement for the year ended 31 March 2015

Continuing activities	Note	£m	2015 £m	£m	2014 £m
Revenue			752.5		736.5
Operating costs:					
- Operational expenditure	3	(295.5)		(296.4)	
- Exceptional items	3	(19.5)		-	
- Infrastructure renewals expenditure	3	(57.7)		(71.8)	
- Depreciation and amortisation	3	(178.5)		(163.7)	
			(551.2)		(531.9)
Operating profit			201.3		204.6
Financing costs:					
- Interest payable and similar charges	4a	(148.2)		(160.7)	
- Interest receivable	4a	3.3		6.3	
- Fair value (losses)/gains on derivative financial instruments	4b	(64.6)		64.8	
			(209.5)		(89.6)
(Loss)/profit before taxation	3		(8.2)		115.0
Taxation	5		(0.6)		13.0
(Loss)/profit for the year			(8.8)		128.0

Statement of comprehensive income for the year ended 31 March 2015

	Note	2015 £m	2014 £m
(Loss)/profit for the year		(8.8)	128.0
Actuarial (loss)/gain recognised in the pension scheme	21	(32.2)	24.7
Movement on deferred tax asset relating to pension scheme	6	5.9	(5.8)
Total comprehensive (expenditure)/income for the year		<u>(35.1)</u>	<u>146.9</u>

Statement of changes in equity for the year ended 31 March 2015

	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2013	309.9	166.2	(60.6)	415.5
Total comprehensive income for the year	-	-	146.9	146.9
At 31 March 2014	<u>309.9</u>	<u>166.2</u>	<u>86.3</u>	<u>562.4</u>
Total comprehensive expense for the year	-	-	(35.1)	(35.1)
At 31 March 2015	<u>309.9</u>	<u>166.2</u>	<u>51.2</u>	<u>527.3</u>

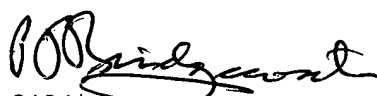
Balance sheet as at 31 March 2015

	Note	2015 £m	2014 £m
Assets			
Non-current assets			
Property, plant and equipment	7	3,578.4	3,442.3
Intangible assets	8	100.6	83.9
Investments	9	1.6	1.6
Trade and other receivables	10	320.5	320.5
		<u>4,001.1</u>	<u>3,848.3</u>
Current assets			
Trade and other receivables	10	533.1	525.6
Inventories		1.9	2.2
Cash and cash equivalents	11	144.6	91.6
		<u>679.6</u>	<u>619.4</u>
Liabilities			
Current liabilities			
Trade and other payables	12	(545.8)	(538.7)
Financial liabilities:			
- borrowings	13	(27.4)	(30.0)
- derivative financial instruments	14	(11.1)	(21.9)
Provisions	16	(5.2)	(4.5)
		<u>(589.5)</u>	<u>(595.1)</u>
Net current assets		90.1	24.3
Non-current liabilities			
Trade and other payables	12	(99.6)	(80.3)
Financial liabilities:			
- borrowings	13	(2,998.5)	(2,880.1)
- derivative financial instruments	14	(184.5)	(109.1)
Provisions	16	(23.7)	(11.9)
Retirement benefit obligations	21	(32.5)	(2.8)
		<u>(3,338.8)</u>	<u>(3,084.2)</u>
Net assets before deferred tax		752.4	788.4
Deferred tax - net	6	(225.1)	(226.0)
Net assets		<u>527.3</u>	<u>562.4</u>
Equity			
Called-up share capital	17	309.9	309.9
Capital redemption reserve		166.2	166.2
Retained earnings		51.2	86.3
Total equity		<u>527.3</u>	<u>562.4</u>

The financial statements on pages 11 to 43 were approved by the Board of Directors on 1 September 2015 and were signed on its behalf by:



C A Jones
Chief Executive Officer



P J Bridgewater
Finance Director

Cash flow statement for the year ended 31 March 2015

	Note	2015 £m	2014 £m
Cash flow from operating activities			
Cash generated from operations	18	380.8	351.8
Interest received		3.3	6.3
Interest paid		(123.4)	(174.7)
Tax received		1.5	-
Net cash inflow from operating activities		<u>262.2</u>	<u>183.4</u>
Cash flow from investing activities			
Purchase of property, plant and equipment		(311.4)	(283.0)
Grants and contributions received		16.2	14.6
Net cash outflow from investing activities		<u>(295.2)</u>	<u>(268.4)</u>
Net cash flow before financing activities		(33.0)	(85.0)
Cash flows from financing activities			
Loan received from group undertaking		160.0	75.0
Term loan repayments		(16.4)	(13.5)
Capital element of finance lease payments		(57.4)	(39.4)
Other loan repayments		(0.2)	(0.2)
Net cash generated from financing activities		<u>86.0</u>	<u>21.9</u>
Increase/(decrease) in net cash	19b	53.0	(63.0)
Net cash at 1 April		91.6	154.6
Net cash at 31 March	11	<u>144.6</u>	<u>91.6</u>

Notes to the financial statements

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2015

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 financial statements of Dŵr Cymru Cyfyngedig have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and those parts of the Companies Act 2006 applicable to reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

Changes in accounting policies and disclosures

In the current year, the company has adopted a number of new or revised accounting standards that are outlined below. The company's principal accounting policies are unchanged compared with the year ended March 2014. As at 31 March 2015, there were no new standards or interpretations in issue but not yet effective which are expected to have a material impact on the company's financial statements.

IFRS 12: Disclosure of interests in other entities

IFRS 12 is a new and comprehensive standard that prescribes disclosure requirements for all forms of interests in other entities, including joint ventures and associates.

Amendment to IAS 32 Financial Instruments: Presentation on offsetting financial assets and financial liabilities

The amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counter parties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanism.

Amendment to IAS 39 Financial instrument: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting

This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counter parties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria.

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.

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates (cont'd)

Accounting policies for the year ended 31 March 2015 (cont'd)

Segment reporting

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

Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs and borrowing costs.

Property, plant and equipment comprise:

- (i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- (ii) Other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

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

- (i) Infrastructure assets

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

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

The depreciation charge for infrastructure assets is determined for each component of the network and is based on each component's cost, estimated residual value and the expected remaining average useful life. The useful average economic lives of the infrastructure components range principally from 60 to 150 years.

- (ii) Other assets

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

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

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

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates (cont'd)

Accounting policies for the year ended 31 March 2015 (cont'd)

Borrowing costs

General and specific borrowing costs directly attributable to acquisition, construction and production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those until such time as the assets are substantially ready for their intended use.

Intangible assets

Intangible assets, which comprise principally computer software and system developments, are included at cost less accumulated amortisation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when the relevant recognition criteria are met (as per IAS 38). The carrying values of intangible assets are reviewed for impairment if circumstances dictate the carrying value may not be recovered. Intangible assets are amortised on a straight line basis over their estimated useful economic lives, which range between 3 and 20 years. These asset lives are reviewed annually.

Leased assets

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

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

Grants and customer contributions

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets. Grants in respect of revenue expenditure are credited to the income statement over the same period as the related expenditure is incurred.

Capital expenditure programme incentive payments

The 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.

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.

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates (cont'd)

Accounting policies for the year ended 31 March 2015 (cont'd)

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

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

Financial liabilities

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

Derivative instruments utilised by the company are interest rate and inflation swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Derivatives are recognised initially and subsequently re-measured at fair value (based on market price data from relevant counterparties). During the year to 31 March 2015, none of the group's derivatives qualified for hedge accounting under IAS 39 (2014: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Deferred taxation

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

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates (cont'd)

Accounting policies for the year ended 31 March 2015 (cont'd)

Deferred income tax has been recognised in relation to rolled over gains except where reinvestment has been made in certain operational assets which the company plans to use until the end of their useful economic life. The company anticipates that these assets will then be scrapped for negligible proceeds, or proceeds less than their tax base, and therefore no chargeable gain is expected to arise in the future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences 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 conforming 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 22.

Exceptional items

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

Going concern

As described on page 20 the company meets its day to day working capital requirement through its bank facilities. The current economic conditions continue to create uncertainty over the level of demand for the company's services; and the availability of bank finance for the foreseeable future. The company'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 company has adequate resources to continue operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates (cont'd)

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 of up to one year can be placed with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively or are short-term deposits with the account bank (Natwest). Deposits of over one year should be placed with counterparties that have a minimum rating of AA-/Aa3/AA-.

In practice, the group has adopted a more prudent approach to cash management and deposits are placed for a maximum of six months with banks subject to minimum short-term rating criteria of A1/P1/F1. Bond and commercial paper purchases of up to one year can be placed with certain AAA supranationals, and purchases of up to three months can be placed with certain Board-approved institutions with a minimum long-term rating of AA-/Aa3/AA-. The maximum cash investment with a single counterparty was £48m (2014: £25m).

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 £3,026m as at 31 March 2015 (2014: £2,910m), none related to floating rate debt (2014: none). The company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2015, 100% (2014: 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 £196 million in the balance sheet at 31 March 2015 (2014: £131m) 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 neither qualify as financial instruments under IAS 39 nor as onerous contracts under IAS 37 and consequently are not included within the financial statements until the contracts are effective.

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, 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 £3,026m (2014: £2,910m) can fall due in any 24 month period.

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates (cont'd)

Financing risk management (cont'd)

Liquidity risk

The group maintains committed banking facilities in order to provide flexibility in the management of its group's liquidity. Under the Common Terms Agreement which governs obligations to its bond holders and other financial creditors, the group is required to have cash available to fund operations for 12 months. As at 31 March 2015, the group had committed undrawn borrowing facilities of £190m (2014: £140m) and cash and cash equivalents (excluding debt service payments account) of £129m (2014: £73m).

The group has revolving credit facilities totalling £120m with a group of six banks. £60m of these facilities will expire in May 2020, with the balance of £60m until August 2019. There is also a £10m overdraft facility (2014: £10m).

As at 31 March 2015, there was also a special liquidity facility of £120m (2014: £135m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cashflow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants. The facility is renewable on an annual basis.

Capital risk management

The 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 Price Index and determined by Ofwat. As at 31 March 2015 gearing was 60% (2014: 63%).

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

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates cont'd

Critical accounting estimates and judgements

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

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of 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 £0.8 million (2014: £0.7 million).

Pension benefits

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the company considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability.

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. A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.7 million (2014: £0.7 million).

Fair value estimation

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

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

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

All of the group's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2015 were valued as follows:

Assets: Trading derivatives £0.0m, Treasury derivatives £0.0m. (March 2014: Trading derivatives £0.8m, Treasury derivatives £0.0m).

Liabilities: Trading derivatives £7.7m, Treasury derivatives £195.8m. (March 2014: Trading derivatives £1.9m, Treasury derivatives £131.0m).

Notes to the financial statements (cont'd)

1. Accounting policies, financing risk management and accounting estimates (cont'd)

Critical accounting estimates and judgements (cont'd)

Trading derivatives relate to power price hedges and are not recorded on the balance sheet. Treasury derivatives relate to interest rate swap contracts and are recorded on the balance sheet at fair value. These have all been assessed as Level 2.

The power price hedging contracts have been fair valued using rates that are quoted in an active market. 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.

Notes to the financial statements (cont'd)

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)/profit before taxation

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

	Total 2015 £m	Total 2014 £m
Operations		
Power	44.9	42.6
Chemicals	9.1	8.6
Materials and equipment	5.4	4.9
Vehicles and plant	6.7	7.3
Office expenses	3.7	4.8
Property costs	4.2	4.3
Insurances	3.9	5.6
Sewerage contractors	17.1	17.4
Water costs	2.0	2.0
Customer service agreements	18.8	19.2
Laboratories and analytical services	0.9	1.2
Collection commissions	4.1	4.0
IT Contracts	15.9	18.1
Other bought in services	19.8	22.1
	<u>156.5</u>	<u>162.1</u>
Employee costs (note 20)	112.1	103.0
Staff costs capitalised	(45.5)	(43.5)
	<u>66.6</u>	<u>59.5</u>
Research and development expenditure	0.4	0.4
Trade receivables impairment	29.7	28.5
Rates	26.3	29.7
Natural Resources Wales/Environment Agency charges	15.8	16.0
Fees payable to auditors	0.2	0.2
	<u>295.5</u>	<u>296.4</u>
Total operational expenditure before exceptional items		
Exceptional items	19.5	-
	<u>315.0</u>	<u>296.4</u>
Total operational expenditure after exceptional items		
Infrastructure renewals expenditure	57.7	71.8
Depreciation and amortisation		
- Depreciation property, plant and equipment	166.2	154.3
- Release of deferred income	(2.3)	(2.4)
- Amortisation of intangible assets	14.6	12.5
- Profit on disposal of property, plant and equipment	-	(0.7)
	<u>178.5</u>	<u>163.7</u>
	<u>551.2</u>	<u>531.9</u>

Notes to the financial statements (cont'd)

3. Profit before taxation (cont'd)

Services provided by the company's auditors

During the year the group obtained the following services from its auditors as detailed below, all of which were paid by the company:

	2015 £000	2014 £000
Audit fees		
Statutory audit of parent company and consolidated financial statements	13	13
Statutory audit of subsidiary companies, including Dŵr Cymru Cyfyngedig	98	78
Total statutory audit fees	<u>111</u>	<u>91</u>
Audit-related fees		
Review of consolidated interim financial statements	23	23
Regulatory price review assurance work	60	49
Regulatory audit services pursuant to legislation	29	28
Scheme of charges assurance work	22	13
Investor reviews	8	8
Total audit and audit-related fees	<u>253</u>	<u>212</u>
Other services		
Replacement billings systems project assurance work	68	74
Other	2	27
Total other services	<u>70</u>	<u>101</u>
Total cost of services provided by the company's auditors	<u>323</u>	<u>313</u>

In addition to the above services, PricewaterhouseCoopers LLP acted as auditors to the Dŵr Cymru Pension Scheme. The appointment of auditors to the pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The fees paid in respect of audit services to the pension scheme during the year were £19,000 (2014: £18,000).

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

Exceptional items

On 22 March 2015 Dŵr Cymru announced a Selective Voluntary Scheme as part of the AMP6 change programme in order to assist the business in meeting Ofwat'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. In total, this gives rise to an exceptional charge for the period of £19.5 million.

Notes to the financial statements (cont'd)

4. Financing costs

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

	2015	2014
	£m	£m
Interest payable on loans	(129.0)	(137.2)
Interest payable on finance leases (including swaps to RPI)	(21.8)	(27.7)
Net interest charge on pension scheme liabilities	(0.1)	(1.3)
Other interest payable and finance costs	(3.2)	(2.4)
Capitalisation of interest under IAS 23 (note 1) (2015: 5.3%, 2014: 5.7%)	6.0	7.9
Accounting profit on termination of leases	8.4	-
Swap terminations	(8.5)	-
Interest payable	<u>(148.2)</u>	<u>(160.7)</u>
Interest receivable	<u>3.3</u>	<u>6.3</u>
Net interest payable before fair value adjustments	<u>(144.9)</u>	<u>(154.4)</u>

Included within interest payable are amounts payable to group undertakings of £126.0m (2014: £131.7m).

b) Fair value losses on derivative financial instruments

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

	2015	2014
	£m	£m
Fair value (losses)/gains on index-linked swaps	<u>(64.6)</u>	<u>64.8</u>

5. Taxation

	2015	2014
	£m	£m
Current tax		
- Current year	(0.1)	0.9
- Adjustment in respect of prior years	<u>0.5</u>	<u>1.5</u>
	0.4	2.4
Deferred tax		
- Origination and reversal of timing differences	5.4	(35.3)
- Adjustment in respect of prior years	(0.5)	6.2
- Effect of tax rate change	-	33.9
Total deferred tax (note 6)	<u>4.9</u>	<u>4.8</u>
Total taxation credit	<u>5.3</u>	<u>7.2</u>
Analysed as:		
Total (charge)/credit to Income Statement	(0.6)	13.0
Credit/(charge) to Statement of Comprehensive Income	<u>5.9</u>	<u>(5.8)</u>
	<u>5.3</u>	<u>7.2</u>

Notes to the financial statements (cont'd)

5. Taxation (cont'd)

Tax trading losses carried forward as at 31 March 2015 are circa £284m (2014: £304m).

The effective rate of tax for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	2015 £m	2014 £m
(Loss)/profit before tax	(8.2)	115.0
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 21% (2014: 23%)	(1.7)	26.5
Effect of:		
Adjustments in respect of prior years	-	(7.8)
Other permanent differences	2.3	2.1
Effect of tax rate change	-	(33.8)
Movement on deferred tax asset relating to pension scheme	(5.9)	5.8
Total taxation credit	(5.3)	(7.2)

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2014: 20%).

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

	2015 £m	2014 £m
At 1 April	226.1	230.9
Charge/(credit) to Income Statement	1.0	(10.7)
(Credit)/charge to Statement of Comprehensive Income	(5.9)	5.8
Deferred tax recognised on business combination	4.0	-
At 31 March	225.1	226.0
	2015 £m	2014 £m
Effect of:		
Tax allowances in excess of depreciation	327.1	311.5
Capital gains rolled over	3.2	3.2
Deferred tax liability	330.3	314.7
Deferred tax on tax losses carried forward	(56.8)	(60.8)
Deferred tax on losses on derivative financial instruments	(39.1)	(26.2)
Pensions	(6.1)	(0.2)
Other tax differences	(3.2)	(1.5)
Deferred tax asset	(105.2)	(88.7)
Net provision for deferred tax	225.1	226.0

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.

In Finance Act 2014 the Government enacted reductions in the rate of corporation tax to 21% and 20% from 1 April 2014 and 1 April 2015 respectively. The reduction in the rate of corporation tax to 20% has been used to calculate deferred taxation in these financial statements.

Notes to the financial statements (cont'd)

7. Property, plant and equipment

Current year	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £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 £98.0m in respect of assets in the course of construction (2014: £126.1m).

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

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

Current year	Infrastructure assets £m	Operational structures £m	Total £m
At 31 March 2015			
Cost	611.8	177.7	789.5
Accumulated depreciation	(97.9)	(100.9)	(198.8)
Net book value	513.9	76.8	590.7

Notes to the financial statements (cont'd)

7. Property, plant and equipment (cont'd)

Prior year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2013	35.7	1,680.3	3,117.4	238.8	5,072.2
Additions net of grants and contributions	1.1	55.5	189.9	14.0	260.5
At 31 March 2014	<u>36.8</u>	<u>1,735.8</u>	<u>3,307.3</u>	<u>252.8</u>	<u>5,332.7</u>
Accumulated depreciation					
At 1 April 2013	18.3	236.6	1,246.1	235.1	1,736.1
Charge for the year	0.4	26.0	117.3	10.6	154.3
At 31 March 2014	<u>18.7</u>	<u>262.6</u>	<u>1,363.4</u>	<u>245.7</u>	<u>1,890.4</u>
Net book value					
At 31 March 2013	<u>17.4</u>	<u>1,443.7</u>	<u>1,871.3</u>	<u>3.7</u>	<u>3,336.1</u>
At 31 March 2014	<u>18.1</u>	<u>1,473.2</u>	<u>1,943.9</u>	<u>7.1</u>	<u>3,442.3</u>

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

Prior year	Infrastructure assets £m	Operational assets £m	Total £m
At 31 March 2014			
Cost	611.8	275.5	887.3
Accumulated depreciation	(90.2)	(155.2)	(245.4)
Net book value	<u>521.6</u>	<u>120.3</u>	<u>641.9</u>

Notes to the financial statements (cont'd)

8. Intangible assets

	Cost £m	Amortisation £m	Net book value £m
Current year			
At 1 April 2014	185.0	(101.1)	83.9
Additions/(charge) for year	31.3	(14.6)	16.7
At 31 March 2015	<u>216.3</u>	<u>(115.7)</u>	<u>100.6</u>
Prior year			
At 1 April 2013	154.7	(88.6)	66.1
Additions/(charge) for year	30.3	(12.5)	17.8
At 31 March 2014	<u>185.0</u>	<u>(101.1)</u>	<u>83.9</u>

Intangible fixed assets comprise computer software and related system developments.

The net book value of intangible assets includes £4.7m in respect of assets in the course of construction (2014: £2.0m).

The net book value of intangible assets includes £1.0m of borrowing costs capitalised in accordance with IAS 23 (2014: £1.1m) of which £0.3m were additions in the year (2014: £0.3m).

9. Investments

	2015 £m	2014 £m
Cost and net book value		
At 1 April and 31 March	<u>1.6</u>	<u>1.6</u>

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

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

The company held 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) plc; this was redeemed on 31 March 2014.

In addition, the company holds Ordinary shares of £1 each in the following subsidiary:

	Principal activity	Country of incorporation	Holding
Welsh Water Utilities Finance plc	Raising finance	England and Wales	100%
Dŵr Cymru Customer Services Ltd	Billing and income	England and Wales	100%
Infinis Hydro 1 Limited	Asset purchase vehicle	England and Wales	100%

Notes to the financial statements (cont'd)

10. Trade and other receivables

	2015 £m	2014 £m
Current		
Trade receivables	527.9	502.8
Less provision for impairment of receivables	(78.9)	(65.9)
Trade receivables - net	449.0	436.9
Prepayments and accrued income	73.9	67.2
Other receivables	10.2	21.6
	<u>533.1</u>	<u>525.6</u>
Non-current		
Amounts receivable from group undertakings	320.5	320.5
	<u>320.5</u>	<u>320.5</u>
Total trade and other receivables	<u>853.6</u>	<u>846.1</u>

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

Non-current accounts receivable include a loan to the company's immediate parent company, Dwr Cymru (Holdings) Limited, of £320.5m (2014: £320.5m). The interest rate on this loan is 12%, and loan interest of £38.5m (2014: £38.5m) has been waived by the company during the year. The interest waiver is a practical alternative to funding the interest otherwise receivable by the company by means of an ordinary dividend.

As at 31 March 2015, based on a review of collection rates it was considered that £78.9m of trade receivables were impaired and these have therefore been provided for (2014: £65.9m). The impaired receivables relate mainly to the supply of measured and unmeasured water supply receivables.

The ageing of these receivables was as follows:

	Total	Provided for	Net
	£m	£m	£m
Current year			
Trade receivables			
Billings in advance	377.5	-	377.5
Under one month	24.7	(7.2)	17.5
Between one and six months	28.1	(11.4)	16.7
Between six months and one year	44.2	(14.1)	30.1
Between one and two years	30.7	(25.2)	5.5
Between two and three years	20.4	(18.7)	1.7
Over three years	2.3	(2.3)	-
	<u>527.9</u>	<u>(78.9)</u>	<u>449.0</u>
Prior year			
Trade receivables			
Billings in advance	387.7	-	387.7
Under one month	11.1	(5.3)	5.8
Between one and six months	27.7	(13.5)	14.2
Between six months and one year	25.8	(12.7)	13.1
Between one and two years	27.1	(19.5)	7.6
Between two and three years	19.1	(14.1)	5.0
Over three years	4.3	(0.8)	3.5
	<u>502.8</u>	<u>(65.9)</u>	<u>436.9</u>

Notes to the financial statements (cont'd)

10. Trade and other receivables (cont'd)

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

	2015	2014
	£m	£m
At 1 April	65.9	61.4
Charge to Income Statement	29.5	27.9
Receivables written off during the year as uncollectable	(16.5)	(23.4)
At 31 March	<u>78.9</u>	<u>65.9</u>

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

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

During the year the company has written off £16.5m of debt which had been provided for in full (2014: £23.4m).

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

11. Cash and cash equivalents

	2015	2014
	£m	£m
Cash at bank and in hand	10.5	4.6
Short-term deposits	<u>134.1</u>	<u>87.0</u>
	<u>144.6</u>	<u>91.6</u>

The effective interest rate on short-term deposits as at 31 March 2015 was 0.4% (2014: 0.4%) and these deposits had an average maturity of 30 days (2014: 5 days). All cash and cash equivalents were held in sterling.

Cash at bank and in hand as at 31 March 2015 includes the effect of uncleared cheque and BACS payments.

12. Trade and other payables

	2015	2014
	£m	£m
Current		
Trade payables	49.3	47.0
Capital payables	40.9	30.2
Amounts due to group undertakings	6.8	5.0
Other taxation and social security	5.2	3.5
Accruals and deferred income	<u>443.6</u>	<u>453.0</u>
	<u>545.8</u>	<u>538.7</u>
Non-current		
Deferred income	<u>99.6</u>	<u>80.3</u>

Notes to the financial statements (cont'd)

13. Financial liabilities – borrowings

	2015	2014
Current	£m	£m
Interest accruals	5.0	0.3
Loans due to group undertakings	11.8	16.2
Other unsecured loans	0.3	0.3
Finance lease obligations	10.3	13.2
	<u>27.4</u>	<u>30.0</u>
Non-current	£m	£m
Interest accruals	52.8	49.2
Loans due to group undertakings	2,413.2	2,237.0
Term loan (KfW)	35.0	35.0
Other unsecured loans	0.6	0.8
Finance lease obligations	496.9	558.1
	<u>2,998.5</u>	<u>2,880.1</u>

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 £973.7m (2014: £960.8m) benefit from a guarantee from MBIA UK Insurance Limited ("MBIA"). MBIA's credit rating has been reduced to B3 and BBB+ by Moody's and S&P respectively, and is no longer rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A3/A/A from Moody's, S&P and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the MBIA guarantee, and is the same as the credit ratings of the group's Class B bonds of £1,000.6m (2014: £988.1m).

14. Derivative financial instruments

All derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39 and movements in their fair values are taken to the income statement (see note 4b). The fair values of all derivative financial instruments held by the company 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.

2015	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(11.1)
Interest rate swaps	-	-
	<u>-</u>	<u>(11.1)</u>
Non-current		
Index-linked swaps	-	(184.5)
Interest rate swaps	-	-
	<u>-</u>	<u>(184.5)</u>
Total	<u>-</u>	<u>(195.6)</u>

Notes to the financial statements (cont'd)

14. Derivative financial instruments (cont'd)

2014	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(20.5)
Interest rate swaps	-	(1.4)
	-	(21.9)
Non-current		
Index-linked swaps	-	(107.6)
Interest rate swaps	-	(1.5)
	-	(109.1)
Total	-	(131.0)

In accordance with IAS 39, 'Financial instruments: Recognition and measurement', Dŵr Cymru Cyfyngedig 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. Dŵr Cymru Cyfyngedig has no such embedded derivatives as per IAS 39.

Interest rate swaps

The mark to market value of these swaps is wholly included in current liabilities. These swaps are matched against the same liabilities as £427m (2014: £436m) of the finance lease index-linked swaps noted below.

Index-linked swaps

The index-linked swaps have the effect of fixing the interest rate on £382m (2014: £436m) of finance lease liabilities and £173.8m (2013: £181.3) of intra-group indebtedness by reference to the retail price index ("RPI").

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2015 is £427m (2014: £440m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2015. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The notional amount of the index-linked swaps allocated to intra-group indebtedness as at 31 March 2015 is £173.8m (2014: £173.8m). This notional amount amortises over the 13 year life of the swap.

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

Notional amount	£427m amortising (2014: £440m amortising)
Average swap maturity	23 years (2014: 23 years)
Average interest rate	1.63% fixed plus RPI (2014: 1.63% fixed plus RPI)

15. Financial risk management

The policies of the company in respect of financial risk management are included in the accounting policies note on page 18. 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:

	2015	2014
Assets:		
Cash and cash equivalents	0.4%	0.5%
Amounts owed by group undertakings	12.0%	12.0%
Liabilities:		
Intercompany loans	4.7%	4.7%
Term loans	1.1%	1.2%
Other unsecured loans	5.0%	5.1%
Finance lease obligations	1.0%	2.0%

Notes to the financial statements (cont'd)

15. Financial risk management (cont'd)

Trade and other receivables and payables are non interest bearing.

Interest due on the intercompany loan of £45.1m (2014: £45.1m) has been waived by the company during the year.

The effective interest rates ignore the effect of the index-linked swaps set out in note 14.

b) Liquidity risk

2015	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	144.6	-	-	-	144.6
Trade and other receivables	533.1	-	-	-	533.1
	677.7	-	-	-	677.7
Liabilities:					
Intercompany loan	11.8	19.8	71.8	2,321.6	2,425.0
Term loan (KfW)	-	-	35.0	-	35.0
Other unsecured loans	0.3	0.3	0.3	-	0.9
Finance lease obligations	10.3	50.1	36.0	410.8	507.2
Trade and other payables	583.0	2.8	5.6	54.0	645.4
	605.4	73.0	148.7	2,786.4	3,613.5
2014					
	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	91.6	-	-	-	91.6
Trade and other receivables	525.6	-	-	-	525.6
	617.2	-	-	-	617.2
Liabilities:					
Intercompany loan	16.2	11.8	92.1	2,133.1	2,253.2
Term loan (KfW)	-	-	35.0	-	35.0
Other unsecured loans	0.3	0.3	0.5	-	1.1
Finance lease obligations	13.2	14.2	86.9	456.9	571.2
Trade and other payables	557.4	2.8	5.6	54.0	619.8
	587.1	29.1	220.1	2,644.0	3,480.3

The minimum payments under finance leases fall due as follows:

	2015 £m	2014 £m
Gross finance lease liabilities		
Within one year	16.2	18.9
Between two and five years	123.0	123.4
After five years	505.8	514.2
	645.0	656.5
Future interest	(137.8)	(85.3)
Net finance lease liabilities	507.2	571.2
Net finance lease liabilities are repayable as follows:		
Within one year (note 13)	10.3	13.2
Between two and five years	86.0	101.1
After five years	410.9	456.9
Total over one year (note 13)	496.9	558.0

Notes to the financial statements (cont'd)

15. Financial risk management (cont'd)

c) Fair values

The fair values of the company's derivative financial instruments are set out in note 14. The fair value of the intercompany loan is £2,312.6m (2014: £2,709.7m). The fair values of the company's other non-derivative financial instruments are equal to the book values.

d) Borrowing facilities

As at 31 March 2015, there were committed facilities for operating cash within the group of £190m (2014: £140m) expiring as set out below.

	2015 £m	2014 £m
Expiring within one year:		
- Intercompany term loan facility	-	30
Expiring in more than one year:		
- Intercompany revolving credit facilities	120	110
- Intercompany term loan facility	70	-
	<u>190</u>	<u>110</u>
	<u>190</u>	<u>140</u>

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

On 17 November 2014 the group agreed a loan facility with the European Investment Bank. £160 million of the facility has since been drawn: £80 million on 15 December 2014 and £80 million on 15 January 2015. The remaining £70m loan facility with European Investment Bank is available up to May 2016.

The group has undrawn revolving credit facilities of £120m of which £60m is available to be drawn until May 2020. The remaining £60 million is available until August 2020.

At 31 March 2015, Dŵr Cymru (Financing) Limited ("Financing") also had a special liquidity facility of £135m (2014: £135m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

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

e) Capital risk management

Gearing ratios (group)

	2015 £m	2014 £m
Total borrowings	(3,026)	(2,910)
Less: cash and cash equivalents	145	92
Net debt	<u>(2,879)</u>	<u>(2,818)</u>
Regulatory capital value (RCV)	4,831	4,468
Total capital	<u>1,950</u>	<u>1,650</u>
Less: unamortised bond costs	(5)	(5)
Total capital per bond covenants	<u>1,945</u>	<u>1,645</u>
Gearing ratio	60%	63%

As set out on page 21, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV.

Notes to the financial statements (cont'd)

16. Provisions

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Other provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2014	3.1	2.2	6.6	3.0	1.5	16.4
Charged to income statement	17.6	(0.4)	0.9	0.6	-	18.7
Unused amounts reversed	(2.1)	-	-	-	-	(2.1)
Utilised in year	(0.9)	-	(2.9)	-	(0.3)	(4.1)
At 31 March 2015	17.7	1.8	4.6	3.6	1.2	28.9
Split as:						
Amounts to be utilised within one year	5.3	0.1	-	-	(0.2)	5.2
Amounts to be utilised after more than one year	12.4	1.7	4.6	3.6	1.4	23.7
At 31 March 2015	17.7	1.8	4.6	3.6	1.2	28.9

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Other provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2013	7.0	2.1	7.2	4.3	1.7	22.3
Charged to income statement	-	0.1	1.0	0.2	-	1.3
Utilised in year	(3.9)	-	(1.6)	(1.5)	(0.2)	(7.2)
At 31 March 2014	3.1	2.2	6.6	3.0	1.5	16.4
Split as:						
Amounts to be utilised within one year	3.1	-	1.0	1.5	(0.1)	5.5
Amounts to be utilised after more than one year	-	2.2	5.6	1.5	1.6	10.9
At 31 March 2014	3.1	2.2	7.2	3.0	1.5	16.4

Restructuring provision - this provides for the cost restructuring associated with a reduction in the headcount by some 290.

Dilapidation provision - this provision relates to estimated dilapidation costs, which will be utilised over the next five years.

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

Other provision - this provides for certain other obligations which arise during the ordinary course of the company's business.

Provision for loss on swap closure - this provision is in respect of a liability that arose on the cancellation of certain interest rate swap contracts. These contracts were redeemed early and a loss arising on redemption was settled by setting a higher rate on another swap contract. This provision is being released to the Income Statement over the life of the revised swap, which will expire on 31 March 2031.

Notes to the financial statements (cont'd)

17. Called-up share capital

	2015 £m	2014 £m
Authorised		
501,050,000 (2014: 501,050,000) ordinary shares of £1 each	<u>501.1</u>	<u>501.1</u>
Allotted and fully paid		
309,876,374 (2014: 309,876,374) ordinary shares of £1 each	<u>309.9</u>	<u>309.9</u>

18. Cash generated from operations

	2015 £m	2014 £m
Reconciliation of operating profit to cash generated from operations:		
Operating profit	201.3	204.6
Adjustments for:		
- Depreciation and amortisation	178.5	163.7
- Changes in working capital:		
Increase in trade and other receivables	(7.2)	(0.1)
Increase in trade and other payables	(1.9)	(4.1)
Pension contributions in excess of operating costs	(2.4)	(10.0)
Increase/(decrease) in provisions	12.5	(2.3)
	<u>1.0</u>	<u>(16.5)</u>
Cash generated from operations	<u>380.8</u>	<u>351.8</u>

19. Analysis and reconciliation of net debt

a) Net debt at the balance sheet date may be analysed as:	2015	2014
	£m	£m
Cash and cash equivalents	144.6	91.6
Debt owed by parent company after one year	<u>320.5</u>	<u>320.5</u>
	465.1	412.1
Debt due after one year	(2,448.8)	(2,272.8)
Debt due within one year	(12.1)	(16.5)
Finance leases	(507.2)	(571.3)
Accrued interest	<u>(57.8)</u>	<u>(49.5)</u>
	<u>(3,025.9)</u>	<u>(2,910.1)</u>
Net debt	<u>(2,560.8)</u>	<u>(2,498.0)</u>
b) The movement in net debt during the year may be summarised as:	2015	2014
	£m	£m
Net debt at start of year	(2,498.0)	(2,419.7)
Increase/(decrease) in net cash	53.0	(63.0)
Increase in debt	<u>(86.0)</u>	<u>(21.9)</u>
Increase in net debt arising from cash flow	<u>(33.0)</u>	<u>(84.9)</u>
Movement in accrued interest	(8.3)	(10.8)
Indexation of index-linked debt	(28.6)	(38.5)
Repayment of loan to parent company	-	51.1
Accounting profit on lease termination	8.4	-
Other non-cash movements	<u>(1.3)</u>	<u>4.8</u>
Movement in net debt during the year	<u>(62.8)</u>	<u>(78.3)</u>
Net debt at end of year	<u>(2,560.8)</u>	<u>(2,498.0)</u>

Notes to the financial statements (cont'd)

20. Employees and directors

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:

	2015 £'000	2014 £'000
Salary (including benefits in kind)	1,213	1,434
Fees	<u>590</u>	<u>578</u>
	1,803	2,012
Long term incentive plan	<u>345</u>	<u>304</u>
Highest paid director: C A Jones (2014: N C Annett)		
Aggregate emoluments	<u>504</u>	<u>552</u>
Accrued pension under defined benefit scheme	<u>107</u>	<u>151</u>
Long term incentive plan	<u>186</u>	<u>115</u>

Retirement benefits are accruing to three directors (2014 – three) under defined benefit schemes. None of the directors is a member of the defined contribution scheme (2014: none).

Under the new Annual Variable Pay Scheme (AVPS), payment has been made in the current year equivalent to 24.7% of base salary for performance against the corporate Performance Scorecard, 40.0% for financial performance and 14.7% against Strategic and Personal Objectives, making a total payment in the range of 49.85% - 53.6%. This compared to a maximum of 100%. Under the Long Term Variable Pay Scheme (LTVPS) provision has been made for a 20% staged payment of the Customer Equity element of the scheme, reflecting a strong financial performance in the first two years of the regulatory period 2010-2015, but no provision was made for a Customer Service award. (Further details are provided in the 2015 Remuneration Report which forms part of Glas Cymru's 2015 Report and financial statements.)

b) Staff costs during the year

	2015 £m	2014 £m
Wages and salaries	92.5	89.0
Social security costs	8.4	7.4
Other pension costs	<u>11.2</u>	<u>6.6</u>
	112.1	103.0
Average monthly number of people (including executive directors) employed by the company	2015 Number	2014 Number
Regulated water and sewerage activities	<u>2,525</u>	<u>2,448</u>

Of the above, £45.5m (2014: £43.5m) has been capitalised.

Notes to the financial statements (cont'd)

20. Employees and directors (cont'd)

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 :

	2015	2014
	£m	£m
Executive Directors	1.9	2.0
Other key personnel	1.7	1.7
	3.6	3.7

21. Pension commitments

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

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

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2013 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated at 31 March 2015 and the principal assumptions made by the actuaries were:

	2015	2014
Discount rate	3.4%	4.4%
Inflation assumption	3.0%	3.4%
Rate of increase in pensionable salaries	2.0%	2.3%
Rate of increase in pensions in payment	2.9%	3.2%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	87.2 yrs	87.1 yrs
- Current pensioners aged 65 - females	89.4 yrs	89.3 yrs
- Future pensioners aged 65 (currently aged 45) - males	88.6 yrs	88.4 yrs
- Future pensioners aged 65 (currently aged 45) - females	90.9 yrs	90.8 yrs

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

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

	Expected	2015	Expected	2014
	return	% of total	return	% of total
		assets		assets
Equities	6.5%	48.3%	6.5%	54.8%
Bonds	5.0%	39.3%	5.0%	28.6%
Other	3.0%	2.5%	3.0%	6.0%

Notes to the financial statements (cont'd)

21. Pension commitments (cont'd)

	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m
At 1 April 2014	320.1	(318.9)	1.2
Current service cost	8.7	-	8.7
Interest expense/income	14.7	(14.7)	-
Past service cost	0.4	-	0.4
Expenses	-	0.2	0.2
	23.8	(14.5)	9.3
Remeasurements			
Gain from change in financial assumptions	60.7	-	60.7
Experience gains	-	(28.4)	(28.4)
	60.7	(28.4)	32.2
Contributions	-	(12.3)	(12.3)
Benefits paid	(8.0)	8.0	-
	(8.0)	(4.3)	(12.3)
At 31 March 2015	396.6	(366.1)	30.5

	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m
At 1 April 2013	323.3	(291.2)	32.1
Current service cost	9.9	-	9.9
Interest expense/income	14.7	(13.4)	1.3
Past service cost	0.2	-	0.2
Expenses	0.7	0.6	1.3
	25.5	(12.8)	12.7
Remeasurements			
Gain from change in demographic assumptions	(8.7)	-	(8.7)
Loss/(gain) from change in financial assumptions	(14.6)	-	(14.6)
Experience gains	-	(1.5)	(1.5)
	(23.3)	(1.5)	(24.8)
Contributions	-	(16.5)	(16.5)
Benefits paid	(5.4)	5.4	-
Bulk transfer	-	(2.3)	(2.3)
	(5.4)	(13.4)	(18.8)
At 31 March 2014	320.1	(318.9)	1.2

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

	2015 £m	2014 £m
Present value of funded obligations	(396.6)	(320.1)
Fair value of plan assets	366.1	318.9
	(30.5)	(1.2)
EFRBS unfunded liability	(2.0)	(1.6)
Net liability recognised in the Balance Sheet	(32.5)	(2.8)

Notes to the financial statements (cont'd)

21. Pension commitments (cont'd)

	2015	2014	2013	2012	2011
Experience adjustments arising on scheme assets:					
Amount (£m)	(24.2)	2.9	17.9	(9.5)	(8.2)
Percentage of scheme assets	(7%)	(3%)	(6%)	(4%)	(4%)
Experience adjustments arising on scheme liabilities:					
Amount (£m)	(60.7)	(5.1)	(15.7)	(16.4)	3.6
Percentage of the present value of scheme liabilities	(15%)	(5%)	(5%)	(6%)	2%
Present value of scheme liabilities (£m)	396.6	320.0	323.3	272.8	238.4
Fair value of scheme assets (£m)	366.1	318.8	291.1	240.7	222.9
Deficit (£m)	(30.5)	(1.2)	(32.1)	(31.9)	(15.5)

The contributions paid in the year to 31 March 2015 include a special contribution of £1.3m (2014: 1.2m). There were no contributions paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2014: £3.5m) The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2016 amounts to £1.3m.

	Change in assumption	Increase in Liabilities
Discount rate	0.1%	£6.8m
Price inflation	0.1%	£6.5m
Life expectancy	1 year	£6.8m

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

22. Contingent liabilities

The company is liable, under its inter-company loan arrangements with Dŵr Cymru (Financing) Limited ("Financing"), for any cash liabilities that may arise to the extent that such cash liabilities are not already included in fixed interest rates under the tranches of the inter-company loan. An amount equal to such cash liabilities is recharged by Financing as fees under the inter-company loan arrangements.

On 10 May 2001, Financing had entered into £625m notional of interest rate swaps. The purpose of these interest rate swaps was to fix the interest rate on an equivalent amount of floating rate bonds issued by Financing. The floating rate borrowings and the interest rate swaps were matched and re-charged to the company as fixed interest tranches of the inter-company loan of the same date.

Financing floating rate bonds, and the related fixed interest tranches of the inter-company loan, were repaid on 31 March 2005 (£100m), 30 June 2005 (£425m) and 31 March 2006 (£100m). Financing's interest rate swaps remained in place to hedge other floating rate liabilities of the group, in accordance with the Group's hedging strategy.

The company remains liable, under the inter-company loan arrangements, for any future cash liabilities under the remaining interest rate swap of £192m (2014: £192m) notional. As at 31 March 2015, the mark to market value of this interest rate swap was £107m (2014: £69m), and the interest rate and maturity of the swap are 5.67% and 16 years (2014: 5.67% and 17 years) respectively.

Aside from the above, there were no contingent liabilities other than those arising from the ordinary course of the company's business and on these no material losses are anticipated.

23. Capital and other financial commitments

The company's business plan at 31 March 2015 shows net capital expenditure and infrastructure renewals expenditure of £332m (2014: £330m) during the next financial year. While only a portion of this amount has been formally contracted for, the company is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

Notes to the financial statements (cont'd)

24. Related party transactions

Interest payable on intercompany loans to Dŵr Cymru (Financing) Limited during the year was £125.1m (2014: £129.2m).

There were no other transactions with companies that are part of the Glas Cymru Cyfyngedig group.

25. Immediate and ultimate holding company

The immediate parent company is Dŵr Cymru (Holdings) Limited and the ultimate holding company and controlling party is Glas Cymru Cyfyngedig, both of which are registered in England and Wales. The largest and smallest group within which the results of the company are consolidated is that headed by Glas Cymru Cyfyngedig, whose consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.

26. 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 2015 the market value of the trust fund was £113m (2014:£103m)

Interest receivable includes £2.5m (2014: £5.6m) in respect of distributions from the Elan Valley Trust Fund.