Registered Nº: 2366777

Dŵr Cymru Cyfyngedig

Annual report and financial statements
for the year ended 31 March 2016

Registered office
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

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Foreword

These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2016. 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 Holdings Limited, 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 2016 is included in the published annual report and accounts for Glas Cymru Anghyfyngedig.

Directors and advisers

Directors

Robert Ayling	Chairman
Peter Bridgewater	Finance and Commercial Director
Graham Edwards	Non-executive Director
Chris Jones	Chief Executive
Joanne Kenrick	Non-executive Director (appointed November 2015)
Peter Perry	Chief Operating Officer
Prof Stephen Palmer	Non-executive Director
Menna Richards	Non-executive Director
James Strachan	Non-executive Director (resigned July 2015)
Anna Walker	Non-executive Director
John Warren	Non-executive Director

Company Secretary
Nicola Williams

Independent auditors
KPMG LLP
Cardiff

Solicitors
Linklaters LLP
London

Principal bankers
National Westminster Bank Plc
Brecon

Strategic report for the year ended 31 March 2016

The directors present the strategic report of Dŵr Cymru Cyfyngedig for the year ended 31 March 2016.

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 2015-16 financial performance was good. Total revenue reduced by 1% to £743 million (2015: £753 million). The income statement shows a profit before taxation of £47 million (2015: loss of £45 million) which has principally been caused by non-cash movements: a gain of £11m in the market value of derivative financial instruments (2015: loss of £101m). The bad debt charge for the year of £27 million (2015: £29 million) represents 3.6% of annual turnover. "Customer reserves" (the company's regulatory capital value less net debt) now stand at over £2.1 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 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.

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 Angyfyngedig. 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 Angyfyngedig which does not form part of this report (available on the group's website at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx).

Principal risks and uncertainties

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

- Health and safety major incident
- Major public health incident
- Failure to achieve required performance levels and efficiencies during the period 2015-2020
- Failure to deliver the retail customer service plan, including management of bad debt
- Failure to adapt to the challenges and opportunities of sector change
- Increased focus on environmental regulation
- Failure to earn the trust and confidence of our customers
- Loss of key talent, capability and competence
- ICT risk
- Future funding risk and relationships with investors

By order of the Board

N Williams
Company Secretary

8 June 2016

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 2016 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 2016 on pages 9 to 41.

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 2016 Dŵr Cymru Cyfyngedig had 3,042 employees. 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 2016 Occupational Health and Safety Report which is available on our website.

Research and development

The Independent Environmental Advisory Panel (made up of regulators, academics and environmental stakeholders) continues to advise the business on all of the science and research we undertake. The Panel continues to be instrumental in assisting us with the design of many of our research proposals and supports the business through offering advice. The Panel has also assisted us to tap into the expertise and resources available in such bodies and to build our relationships with them, so as to leverage funding and expertise into our science and research work.

More generally, we have driven elements of the national research and development agenda by participation in water industry research initiatives, most notably through membership of UK Water Industry Research Limited (UKWIR) which manages and coordinates the research interests of UK water companies.

We have also engaged with a wide range of stakeholders through a number of workshops, and our 2016 Innovation conference.

Greenhouse gases

The release of greenhouse gases (GHG) has an impact on climate change which, either directly or indirectly, presents considerable risks both to the business and the environment. The company seeks to reduce its releases of greenhouse gases where possible and measures this through the calculation of our operational carbon emissions. These emissions are dominated by grid supplied energy (electricity and gas) accounting for 84% of the total. In 2015-16 our operational carbon emissions fell 11% to 230 ktCO2e from 257*ktCO2e in 2014/15. There were three key components to this change:

- the carbon content of grid supplied electricity fell 6%, reversing much of the previous year's rise and contributing to the overall fall in emissions;
- consumption of electricity rose 3.5% to 467 GWh, an unwanted record high, as a result of increased pumping in the Waste Water business during the very wet winter. However, we generated 21% of this volume from our own renewable energy sites helping to mitigate against any rise in externally sourced electricity; and
- renewable energy production rose to 97 GWh (60 in GWh 2014-15) with record outputs from all technologies: anaerobic digestion (45 GWh), hydro (49 GWh) and solar (3 GWh).

Corporate social responsibility

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

- working with Natural Resources Wales and the farming industry we have come together in partnership to tackle levels of pesticides in water. This has enabled us to provide an extensive awareness campaign with the offer of the free hire of the weed wiper, an alternative application method that reduces pesticide run-off;
- we have biodiversity action plans at a number of our sites; and
- we also work with others to maintain and enhance biodiversity

Political donations

It is Board policy not to make donations to political parties or to incur political expenditure and during 2015-16 no donations or payments were made which are required to be disclosed under section 366 of the Companies Act 2006.

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 declared and paid a dividend of £320.5m during the year (2015: £nil).

Welsh Language Scheme

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

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 will be published on Dŵr Cymru Cyfyngedig's website by 15 July 2016 and will also be available on request from the Company Secretary.

Disclosure of information to auditor

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

Auditor

During the year, PricewaterhouseCoopers LLP resigned as auditors and KPMG LLP were appointed.

By order of the Board

N Williams
Company Secretary

8 June 2016

Statement of directors' responsibilities

The directors of Dŵr Cymru Cyfyngedig ('the directors') have accepted responsibility for the preparation of these financial statements for the year ended 31 March 2016 which are intended by them to give a true and fair view of the state of affairs of the company and of the profit or loss for that period. They have decided to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

In preparing these financial statements, the directors have:

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

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

Independent auditor's report to the members of Dŵr Cymru Cyfyngedig

We have audited the financial statements of Dŵr Cymru Cyfyngedig for the year ended 31 March 2016 set out on pages 9 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

8 June 2016

Income statement for the year ended 31 March 2016

Continuing activities	Note	£m	2016 £m	£m	Restated 2015 £m
Revenue			**743.2**		752.5
Operating costs:					
- Operational expenditure	3	**(297.3)**		(295.5)	
- Exceptional items	4	**20.0**		(19.5)	
- Infrastructure renewals expenditure	3	**(58.0)**		(57.7)	
- Depreciation and amortisation	3	**(247.1)**		(178.5)	
			(582.4)		(551.2)
Operating profit			**160.8**		201.3
Financing costs:					
- Interest payable and similar charges	5a	**(130.3)**		(148.2)	
- Interest receivable	5a	**5.6**		3.3	
- Fair value gains/(losses) on derivative financial instruments	5b	**10.6**		(101.3)	
			(114.1)		(246.2)
Profit/(loss) before taxation	3		**46.7**		(44.9)
Taxation	6		**11.0**		6.7
Profit/(loss) for the year			**57.7**		(38.2)

Statement of comprehensive income for the year ended 31 March 2016

	Note	2016 £m	Restated 2015 £m
Profit/(loss) for the year		**57.7**	(38.2)
Items that will not be reclassified to profit or loss:			
Actuarial loss recognised in the pension scheme	23	**(24.6)**	(32.2)
Related deferred tax	7	**3.7**	5.9
Revaluation of property, plant and equipment	8	**1,247.8**	-
Related deferred tax	7	**(224.6)**	-
		1,002.3	(26.3)
Total comprehensive income/(expenditure) for the year		**1,060.0**	(64.5)

Statement of changes in equity for the year ended 31 March 2016

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2014 as previously reported	**309.9**	-	**166.2**	-	**86.3**	**562.4**
Adjustment to derivative financial instruments (note 1)	-	-	-	-	(69.4)	(69.4)
Related deferred tax	-		-	-	13.9	13.9
At 1 April 2014	**309.9**	-	**166.2**	-	**30.8**	**506.9**
Profit for the year	-	-	-	-	(38.2)	(38.2)
Actuarial loss net of tax	-	-	-	-	(26.3)	(26.3)
At 31 March 2015	**309.9**	-	**166.2**	-	**(33.7)**	**442.4**
Profit for the period	-	-	-	-	57.7	57.7
Revaluation net of tax	-	-	-	1,023.2	-	1,023.2
Dividends paid	-	-	-	-	(320.5)	(320.5)
Actuarial loss net of tax	-	-	-	-	(20.9)	(20.9)
Share issue	-	425.0	-	(425.0)	-	-
Reduction in capital	-	(425.0)	-	-	425.0	-
Transfer to retained earnings	-	-	-	(45.3)	45.3	-
At 31 March 2016	**309.9**	-	**166.2**	**552.9**	**152.9**	**1,181.9**

Balance sheet as at 31 March 2016

	Note	2016 £m	Restated 2015 £m
Assets			
Non-current assets			
Property, plant and equipment	9	**4,841.3**	3,578.4
Intangible assets	10	**105.7**	100.6
Investments	11	**1.6**	1.6
Financial assets:			
- derivative financial instruments	16	**0.2**	-
Trade and other receivables	12	**-**	320.5
		4,948.8	4,001.1
Current assets			
Trade and other receivables	12	**545.3**	533.1
Inventories		**2.1**	1.9
Cash and cash equivalents	13	**130.7**	269.1
		678.1	804.1
Liabilities			
Current liabilities			
Trade and other payables	14	**(533.6)**	(545.8)
Financial liabilities:			
- borrowings	15	**(72.8)**	(151.9)
- derivative financial instruments	16	**(23.1)**	(20.6)
Provisions	18	**(3.3)**	(5.2)
		(632.8)	(723.5)
Net current assets		**45.3**	80.6
Non-current liabilities			
Trade and other payables	14	**(159.2)**	(99.6)
Financial liabilities:			
- borrowings	15	**(2,902.0)**	(2,998.5)
- derivative financial instruments	16	**(268.3)**	(281.2)
Provisions	18	**(12.5)**	(23.7)
Retirement benefit obligations	23	**(56.5)**	(32.5)
		(3,398.5)	(3,435.5)
Net assets before deferred tax		**1,595.6**	646.2
Deferred tax - net	7	**(413.7)**	(203.8)
Net assets		**1,181.9**	442.4
Equity			
Called-up share capital	19	**309.9**	309.9
Capital redemption reserve		**166.2**	166.2
Revaluation reserve	8	**552.9**	-
Retained earnings		**152.9**	(33.7)
Total equity		**1,181.9**	442.4

The financial statements on pages 9 to 41 were approved by the Board of Directors on 8 June 2016 and were signed on its behalf by:

P J Bridgewater
Finance and Commercial Director

Cash flow statement for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Cash flow from operating activities			
Cash generated from operations	20	**368.1**	380.8
Interest paid		**(129.1)**	(123.4)
Corporation tax received		**0.2**	1.5
Net cash flow from operating activities		**239.2**	258.9
Cash flow from investing activities			
Interest received		**5.6**	3.3
Purchase of property, plant and equipment		**(195.0)**	(266.5)
Purchase of intangible assets		**(25.0)**	(25.2)
Acquisition of subsidiary		**-**	(19.7)
Grants and contributions received		**16.7**	16.2
Net cash outflow from investing activities		**(197.7)**	**(291.9)**
Net cash flow before financing activities		**41.5**	(33.0)
Cash flows from financing activities			
Movement in book overdrafts		**(81.7)**	79.2
Long term loan received		**-**	160.0
Term loan repayments		**(35.0)**	(16.4)
Loan repaid to group undertaking		**(11.6)**	-
Finance lease principal payments		**(51.4)**	(57.4)
Other loan repayments		**(0.2)**	(0.2)
Net cash flow from financing activities		**(179.9)**	165.2
(Decrease)/increase in cash and cash equivalents	21b	**(138.4)**	132.2
Cash and cash equivalents at 1 April		**269.1**	136.9
Cash and cash equivalents 31 March	13	**130.7**	269.1

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2016

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

The following new standards, interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2015 and have not been adopted early:

- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38
- Annual Improvements to IFRSs - 2012-2014 cycle
- Disclosure Initiative - Amendments to IAS 1
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Effective date of IFRS 15 - amendment to IFRS 15
- IFRS 16 Leases – single on-balance sheet model for operating and finance leases

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

The principal accounting policies adopted in the preparation of these financial statements are consistent with those for the year ended 31 March 2016 with the exception of a change of accounting policy to fair value property, plant and equipment as at the balance sheet date; further information is provided in note 9.

Restatement of prior year balances

Dŵ Cymru (Financing) Limited ('DCF'), another member of the Glas Cymru Anghyfyngedig group, acts as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig ('DCC').

DCF holds a £192m interest rate swap which is used to economically hedge its floating rate liabilities. DCC has previously been accountable for any associated liabilities under the terms of the intercompany loan agreement between DCC and DCF but had not recognised this swap in its accounting treatment. A prior year adjustment has been made to reflect DCC's accountability for the fair value of this swap (note 16) and opening reserves have been restated accordingly. The adjustment to in-year movement set out below reflects the change made to the fair value gains/(losses) on derivative financial instruments recorded in the year ended 31 March 2015 within the statement of comprehensive income.

	Derivative financial instruments £m	Deferred tax £m	Retained earnings £m
At 1 April 2014 as previously reported	(131.0)	(226.0)	86.3
Adjustment to opening balances	(69.4)	13.9	(55.5)
At 1 April 2014 restated	(200.4)	(212.1)	30.8
At 31 March 2015 as previously reported	(195.6)	(225.1)	51.2
Adjustment to opening balances	(69.4)	13.9	(55.5)
Adjustment to in-year movement	(36.8)	7.4	(29.4)
At 31 March 2015 as restated	(301.8)	(203.8)	(33.7)

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

Accounting policies for the year ended 31 March 2016 (continued)

Revenue recognition

Revenue represents the income receivable in the ordinary course of business for services provided, excluding value added tax. Where services have been provided, but for which no invoice has been raised at the year-end, an estimate of the value is included in revenue. Revenue recognised reflects the actual charges levied on customers in the year. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Segment reporting

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

Property, plant and equipment

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

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

A previous revaluation of regulated assets was undertaken as at 31 March 2004 and was used as a 'deemed cost' for the company's fixed assets under the transition rules available on first time adoption of IFRS.

As at 31 March 2016 the total value of tangible and intangible fixed assets has been revalued to the company's shadow RCV, being the 31 March 2016 RCV published by Ofwat in its PR14 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

The carrying value of assets will be reviewed for impairment if circumstances dictate that the carrying value may not be recoverable; asset lines 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.

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

Accounting policies for the year ended 31 March 2016 (continued)

Borrowing costs

General and specific borrowing costs directly attributable to acquisition, construction and production of quaifying 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.

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

Accounting policies for the year ended 31 March 2016 (continued)

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. Derivatives are recognised initially and subsequently re-measured at fair value. The fair values of derivative financial instruments are provided by swap counterparties. The Bloomberg financial dataset platform allows management to perform an independent valuation of these contracts which is then compared to the counterparty confirmations; management makes an adjustment for the company's own credit risk using this valuation tool to extract an average of traded bond spreads at the balance sheet date. In addition the external auditors perform a separate independent valuation exercise of derivative financial instruments. During the year to 31 March 2016, none of the company's derivatives qualified for hedge accounting under IAS 39 (2015: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Taxation

Current taxation is corporation tax in the United Kingdom based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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

Accounting policies for the year ended 31 March 2016 (continued)

Deferred taxation (continued)

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

Deferred income tax has been recognised in relation to rolled over gains except 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 comforming with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 20.

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 18 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 forseeable 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 forseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

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

Financing risk management

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

Credit risk

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

In practice, 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 £31m (2015: £48m).

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 £2,943m as at 31 March 2016 (2015: £3,026m), none related to floating rate debt (2015: none). The company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2016, 100% (2015: 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 £201 million in the balance sheet at 31 March 2016 (2015: £196m) but, assuming that the swaps are held to maturity, this will ultimately reduce to nil.

Power price hedges

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

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,981m (2015: £3,155m) can fall due in any 24 month period.

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

Financing risk management (continued)

Liquidity risk

The group maintains committed banking facilities in order to provide flexibility in the management of its liquidity.

Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the group is required to have cash available to fund operations for 12 months. As at 31 March 2016, the group had committed undrawn borrowing facilities of £280m (2015: £190m) and cash and cash equivalents (excluding debt service payments account) of £80m (2015: £129m).

In 2014, the group agreed a loan facility of £230m with the European Investment Bank. £160m of the facility was drawn during 2015. The remaining facility of £70m was drawn on 17 May 2016. The Group also has an undrawn loan facility of £60m with KfW-IPEX Bank which is available up to May 2017.

The group has £150m of undrawn revolving credit facilities; £130m of these will expire in May 2020 and the remainder are available until August 2019 with an option to extend (subject to the consent of the provider) for a further year to 2020. There is also a £10m overdraft facility (2015: £10m) which is renewable on an annual basis.

As at 31 March 2016 there was also a special liquidity facility of £135m (2015: £135m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants. The facility is renewable on an annual basis.

Capital risk 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 2016 gearing was 57% (2015: 60%).

In respect of the risks detailed above, further quantitative disclosures are provided in note 17.

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

Critcial 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 (2015: £0.8 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 Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability.Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2016 would increase or reduce by £7.7m (2015: £8.3m). Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2016 was £64.9 million (2015: £64.2 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.7 million (2015: £0.7 million).

Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2016 was £64.9 million (2015: £64.2 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.7 million (2015: £0.7 million).

Capitalisation

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

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

Critical accounting estimates and judgements (continued)

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 company's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2016 were valued as follows:

Assets: Trading derivatives £0.2m, Treasury derivatives £0.0m. (March 2015: Trading derivatives £0.0m, Treasury derivatives £0.0m).

Liabilities: Trading derivatives £9.5m, Treasury derivatives £281.9m. (March 2015: Trading derivatives £4.2m, Treasury derivatives £195.6).

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

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

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

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

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. Profit/(loss) before taxation

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

	Total 2016 £m	Total 2015 £m
Operations		
Power	**42.7**	44.9
Chemicals	**9.5**	9.1
Materials and equipment	**5.7**	5.4
Vehicles and plant	**7.2**	6.7
Office expenses	**7.3**	3.7
Property costs	**4.5**	4.2
Insurances	**4.5**	3.9
Sewerage contractors	**12.3**	17.1
Water costs	**2.6**	2.0
Customer service agreements	**5.5**	18.8
Laboratories and analytical services	**0.6**	0.9
Collection commissions	**4.0**	4.1
IT Contracts	**12.7**	15.9
Other bought in services	**33.8**	19.8
	152.9	156.5
Employee costs (note 22)	**124.3**	112.1
Staff costs capitalised	**(46.2)**	(45.5)
	78.1	66.6
Research and development expenditure	**(1.1)**	0.4
Trade receivables impairment	**27.0**	29.7
Rates	**25.3**	26.3
Natural Resources Wales/Environment Agency charges	**14.7**	15.8
Fees payable to auditors	**0.4**	0.3
Total operational expenditure before exceptional items	**297.3**	295.5
Exceptional items	**(20.0)**	19.5
Total operational expenditure after exceptional items	**277.3**	315.0
Infrastructure renewals expenditure	**58.0**	57.7
Depreciation and amortisation		
- Depreciation property, plant and equipment	**230.7**	166.2
- Release of deferred income	**(3.5)**	(2.3)
- Amortisation of intangible assets	**19.9**	14.6
	247.1	178.5
	582.4	551.2

3. Profit before taxation (continued)

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:

	2016	2015
Audit fees	**£000**	£000
Audit of parent company and consolidated financial statements	**10**	13
Audit of subsidiary companies	**85**	98
Total audit fees	**95**	111
Audit-related assurance services		
Review of interim financial statements	**22**	23
Regulatory audit services pursuant to legislation	**29**	29
Regulatory price review assurance work	-	60
Scheme of charges assurance work	**22**	22
Investor report reviews	**5**	8
Total audit and audit-related assurance services	**173**	253
Other services		
Replacement billings system project assurance work	-	68
Assurance on group restructure	**3**	-
Pensions advice	**235**	-
Tax advice	**5**	-
Assurance on Market opening	**25**	-
Other	**0**	2
Total other services	**268**	70
Total cost of services provided by the group's auditors	**441**	323

4. Exceptional items

During the year to 31 March 2016, a business rates refund of £20 million was received relating to the 2005 water network assessment. This has been treated as exceptional due to its size.

On 22 March 2015 Glas Cymru announced a Selective Voluntary Severance Scheme as part of the AMP6 change programme in order to assist the business in meeting 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 were disclosed separately in the financial statements to 31 March 2015.

A credit of £2.1 million related to the release of unutilised provision in respect of a previous programme of restructuring. A further £4.0 million exceptional charge arose following the write-off of goodwill arising on the acquisition of Hydro assets through an asset purchase vehicle. In total, this gave rise to an exceptional charge for the period to 31 March 2015 of £19.5 million.

5. Financing costs

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

	2016	2015
	£m	£m
Interest payable on loans	**(114.8)**	(129.0)
Interest payable on finance leases (including swaps to RPI)	**(14.4)**	(21.8)
Net interest charge on pension scheme liabilities	**(1.0)**	(0.1)
Other interest payable and finance costs	**(4.0)**	(3.2)
Capitalisation of interest under IAS 23	**3.9**	6.0
Accounting profit on termination of leases	**-**	8.4
Swap terminations	**-**	(8.5)
Interest payable	**(130.3)**	(148.2)
Interest receivable	**5.6**	3.3
Net interest payable before fair value adjustments	**(124.7)**	(144.9)

Included within interest payable are amounts payable to group undertakings of £113.8m (2015: £126.0m).

b) Fair value losses on derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. Consequently, the company's interest rate and currency swaps are fair valued at each balance sheet date with the movement (net loss or gain) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 16 in respect of derivative financial instruments recognised in the balance sheet.)

		Restated
	2016	2015
	£m	£m
Fair value gains/(losses) on interest rate swaps	**15.2**	(36.7)
Fair value losses on index-linked swaps	**(4.6)**	(64.6)
	10.6	(101.3)

6. Taxation

		Restated
	2016	2015
	£m	£m
Current tax		
- Current year	**0.2**	0.1
- Tax on research and development credit	**0.2**	-
- Adjustment in respect of prior years	**(0.5)**	(0.5)
	(0.1)	(0.4)
Deferred tax		
- Origination and reversal of timing differences	**255.7**	(12.7)
- Adjustment in respect of prior years	**0.3**	0.5
- Effect of tax rate change	**(46.0)**	-
Total deferred tax (note 7)	**210.0**	(12.2)
Total taxation charge/(credit)	**209.9**	(12.6)
Analysed as:		
Total credit to income statement	**(11.0)**	(6.7)
Charge/(credit) to statement of comprehensive income	**220.9**	(5.9)
	209.9	(12.6)

6. Taxation (continued)

Tax trading losses carried forward as at 31 March 2016 are circa £232m (2015: £284m).

The effective rate of tax for the year is higher (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016	Restated 2015
	£m	£m
Profit/(loss) before tax	**46.7**	(44.9)
Profit/(loss) before tax multiplied by the corporation tax rate in the UK of 20% (2015: 21%)	**9.3**	(9.4)
Effect of:		
Adjustments in respect of prior years	**(0.2)**	-
Other permanent differences	**2.0**	2.4
Effect of tax rate change	**(46.0)**	0.3
Movement on deferred tax asset relating to pension scheme	**(4.8)**	(5.9)
Movement on deferred tax asset relating to revaluation reserve	**249.6**	-
Total taxation charge/(credit)	**209.9**	(12.6)

7. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 18% (2015: 20%).

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

	2016	Restated 2015
	£m	£m
At 1 April	**203.8**	212.1
Credit to income statement	**(11.0)**	(6.4)
Charge/(credit) to statement of comprehensive income	**220.9**	(5.9)
Deferred tax recognised on business combination	**-**	4.0
At 31 March	**413.7**	203.8

	2016	Restated 2015
	£m	£m
Effect of:		
Tax allowances in excess of depreciation	**291.9**	327.1
Deferred tax on revaluation of fixed assets	**224.6**	-
Capital gains rolled over	**2.9**	3.2
Deferred tax liability	**519.4**	330.3
Deferred tax on tax losses carried forward	**(41.7)**	(56.8)
Deferred tax on losses on derivative financial instruments	**(52.4)**	(60.3)
Pensions	**(9.8)**	(6.1)
Other tax differences	**(1.8)**	(3.3)
Deferred tax asset	**(105.7)**	(126.5)
Net provision for deferred tax	**413.7**	203.8

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

8. Revaluation reserve

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

A previous revaluation of regulated assets was undertaken as at 31 March 2004 and was used as a 'deemed cost' for the Group's fixed assets under the transition rules available on first time adoption of IFRS.

As at 31 March 2016 the total value of tangible and intangible fixed assets has been revalued to the company's shadow RCV, being the 31 March 2016 RCV published by Ofwat in its PR14 Final determination as adjusted for the impact of any totex over/underspend and the Outcome Delivery Incentive rewards/penalties. The classes of asset impacted are infrastructure assets and operational structures.

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

During the year a £1 share was issued at a premium of £425m. This was funded from the revaluation reserve.

Revaluation reserve movement	**31 March 2016**
	£m
Revaluation reserve as at 1 April 2015	-
Revaluation of assets to RCV	1,247.8
Depreciation charge on revalued assets	(55.2)
	1,192.6
Deferred tax on revaluation	(224.6)
Deferred tax on depreciation charge	9.9
	(214.7)
Transfer to share premium account	**(425.0)**
Revaluation reserve as at 31 March 2016	**552.9**

9. 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 2015	37.5	1,789.7	3,549.9	257.9	5,635.0
Revaluation	-	195.5	-	-	195.5
Additions net of grants and contributions	4.1	105.0	132.0	4.7	245.8
Disposal	-	-	-	(0.2)	(0.2)
At 31 March 2016	**41.6**	**2090.2**	**3681.9**	**262.4**	**6,076.1**
Accumulated depreciation					
At 1 April 2015	19.1	290.4	1,494.00	253.1	2056.6
Revaluation	-	(330.5)	(721.8)	-	(1,052.3)
Charge for the year	0.7	40.1	183.1	6.8	230.7
Released on disposal	-	-	-	(0.2)	(0.2)
At 31 March 2016	**19.8**	**-**	**955.3**	**259.7**	**1,234.8**
Net book value					
At 31 March 2016	**21.8**	**2,090.2**	**2,726.6**	**2.7**	**4,841.3**
At 31 March 2016 (historic cost)	**21.8**	**1,574.0**	**2,050.2**	**2.7**	**3,648.7**

The net book value of property, plant and equipment includes £109m in respect of assets in the course of construction (2015: £98.0m).

The net book value of property, plant and equipment includes £35.7m of borrowing costs capitalised in accordance with IAS 23 (2015: £33.3m), of which £3.4m were additions in the year (2015: £5.6m).

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 2016			
Cost	**611.8**	**117.7**	**729.5**
Accumulated depreciation	**(105.6)**	**(81.5)**	**(187.1)**
Net book value	**506.2**	**36.2**	**542.4**

Prior year	Freehold land & 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 2014	18.1	1,473.2	1,943.9	7.1	3,442.3
At 31 March 2015	18.4	1,499.3	2,055.9	4.8	3,578.4

9. Property, plant and equipment (continued)

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 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

10. Intangible assets

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

Prior year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2014	185.0	(101.1)	83.9
Additions/(charge) for year	31.3	(14.6)	16.7
At 31 March 2015	216.3	(115.7)	100.6

Intangible fixed assets comprise computer software and related system developments.

The net book value of intangible assets includes £20.2m in respect of assets in the course of construction (2015: £4.7m).

The net book value of intangible assets includes £2.8m of borrowing costs capitalised in accordance with IAS 23 (2015: £2.3m) of which £0.5m were additions in the year (2015: £0.4m).

11. Investments

	2016 £m	2015 £m
Cost and net book value		
At 1 April and 31 March	**1.6**	1.6

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

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

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	Dormant	England and Wales	100%
Dŵr Cymru Customer Services Ltd	Dormant	England and Wales	100%
Hydro 1 Limited	Dormant	England and Wales	100%

12. Trade and other receivables

	2016 £m	2015 £m
Current		
Trade receivables	**537.0**	527.9
Less provision for impairment of receivables	**(85.3)**	(78.9)
Trade receivables - net	**451.7**	449.0
Prepayments and accrued income	**85.3**	73.9
Other receivables	**8.3**	10.2
	545.3	533.1
Non-current		
Amounts receivable from group undertakings	-	320.5
	-	320.5
Total trade and other receivables	**545.3**	853.6

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

The balance of the loan outstanding with the immediate parent, Dŵr Cymru (Holdings) Limited, was repaid in full by way of set-off following the receipt of dividend income of the same value from Dŵr Cymru Cyfyngedig. The interest rate on this loan was 12%, and loan interest of £38.4m (2015: £38.5m) was waived by the company.

As at 31 March 2016, based on a review of collection rates it was considered that £85.3m of trade receivables were impaired and these have therefore been provided for (2015: £78.9m). The impaired receivables relate mainly to the provision of measured and unmeasured water and wastewater services.

The ageing of these receivables was as follows:

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

Prior year Trade receivables	**Total £m**	**Provided for £m**	**Net £m**
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)	-
	527.9	(78.9)	449.0

12. Trade and other receivables (continued)

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

	2016 £m	2015 £m
At 1 April	**78.9**	65.9
Charge to income statement	**26.4**	29.5
Receivables written off during the year as uncollectable	**(20.0)**	(16.5)
At 31 March	**85.3**	78.9

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 £20.0m of debt which had been provided for in full (2015: £16.5m).

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.

13. Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	**43.3**	135.0
Short-term deposits	**87.4**	134.1
	130.7	269.1

The effective interest rate on short-term deposits as at 31 March 2016 was 0.5% (2015: 0.4%) and these deposits had an average maturity of 45 days (2015: 30 days). All cash and cash equivalents were held in sterling.

Cash at bank and in hand as at 31 March 2016 includes the effect of uncleared cheque and BACS payments.

14. Trade and other payables

	2016 £m	2015 £m
Current		
Trade payables	**37.5**	49.3
Capital payables	**41.3**	40.9
Amounts due to group undertakings	**6.9**	6.8
Other taxation and social security	**5.4**	5.2
Accruals and deferred income	**442.5**	443.6
	533.6	545.8

	2016 £m	2014 £m
Non-current		
Deferred income	**159.2**	99.6

15. Financial liabilities – borrowings

Current	2016 £m	2015 £m
Cash and cash equivalents	**42.8**	124.5
Interest accruals	-	5.0
Loans due to group undertakings	**20.6**	11.8
Other unsecured loans	**0.1**	0.3
Finance lease obligations	**9.3**	10.3
	72.8	151.9

Non-current	2016 £m	2015 £m
Interest accruals	**46.6**	52.8
Loans due to group undertakings	**2,246.9**	2,253.2
Term loan (KfW)	**161.4**	195.0
Other unsecured loans	**0.6**	0.6
Finance lease obligations	**446.5**	496.9
	2,902.0	2,998.5

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 £979m (2015: £974) benefit from a guarantee from MBIA UK Insurance Limited ("MBIA"). MBIA's credit rating has been reduced to B3 and BB 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 £1,008 (2015: £1,001m).

16. 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 5b). The fair values of derivative financial instruments are arrived at by discounting future cash flows associated with each swap. The swap rate data used for discounting the flows is obtained from a valuation tool using level 2 techniques for fair value measurement.

2016	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(13.3)
Interest rate swaps (intercompany)	-	(8.8)
Power hedging swaps		(1.0)
	-	(23.1)
Non-current		
Index-linked swaps	-	(177.6)
Interest rate swaps	-	(82.3)
Power hedging swaps	0.2	(8.4)
	0.2	(268.3)
Total	0.2	(291.4)

16. Derivative financial instruments (continued)

2015	Fair values(restated) Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(11.1)
Interest rate swaps (intercompany)	-	(9.5)
	-	(20.6)
Non-current		
Index-linked swaps	-	(184.5)
Interest rate swaps (intercompany)	-	(96.7)
	-	(281.2)
Total	-	(301.8)

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.

DCF holds a £192m interest rate swap which is used to hedge floating rate liabilities. DCC is accountable for any associated liabilities under the terms of the intercompany loan agreement and a prior year adjustment has been made to reflect DCC's accountability for the fair value of this swap and opening reserves have been restated accordingly

Interest rate swaps
At 31 March 2016 an interest rate swap fixes the interest rate on £192 million (2015: £192 million) of floating liabilities held by Dwr Cymru (Financing) Limited and on-lent to the company. The maturity date of the swap is 31 March 2031 and the quarterly fixed interest rate is 5.67%.

Index-linked swaps
The index-linked swaps have the effect of fixing the interest rate on £382m (2015: £425m) of finance lease liabilities by reference to the retail price index ("RPI").

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2016 is £400m (2015: £427m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2016. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

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

Notional amount	£400m amortising (2015: £427m amortising)
Average swap maturity	23 years (2015: 23 years)
Average interest rate	1.63% fixed plus RPI (2015: 1.63% fixed plus RPI)

17. Financial risk management

The policies of the company in respect of financial risk management are included in the accounting policies note on page 19. 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:

	2016	2015
Assets:		
Cash and cash equivalents	**0.5%**	0.4%
Amounts owed by group undertakings	**12.0%**	12.0%
Liabilities:		
Intercompany loans	**4.0%**	3.9%
Term loans	**0.01%**	0.8%
Other unsecured loans	**4.2%**	4.0%
Finance lease obligations	**1.0%**	0.8%

17. Financial risk management (continued)

Trade and other receivables and payables are non interest bearing.

Interest due on the intercompany loan of £38.4 (2015: £38.5m) 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 16.

b) Liquidity risk

2016	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	130.7	-	-	-	130.7
Trade and other receivables	545.3	-	-	-	545.3
	676.0	-	-	-	676.0
Liabilities:					
Cash and cash equivalents	42.8				42.8
Intercompany loan	21.2	22.6	408.0	1,815.7	2,267.5
Term loan	-	-	16.1	145.3	161.4
Other unsecured loans	0.1	0.1	0.4	0.1	0.7
Finance lease obligations	9.3	10.5	40.5	395.5	455.8
Trade and other payables	533.6	1.8	4.9	152.5	692.8
Future interest payable	105.8	107.3	304.7	912.3	1,430.1
	712.8	142.3	774.6	3,421.4	5,051.1

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:					
Cash and cash equivalents	124.5	-	-	-	124.5
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
Future interest payable	103.7	104.4	300.1	1,015.7	1,523.9
	833.6	177.4	448.8	3,802.1	5,261.9

The minimum payments under finance leases fall due as follows:

	2016 £m	2015 £m
Gross finance lease liabilities		
Within one year	**16.3**	16.2
Between two and five years	**90.6**	123.0
After five years	**464.7**	505.8
	571.6	645.0
Future interest	**(115.8)**	(137.8)
Net finance lease liabilities	**455.8**	507.2
Net finance lease liabilities are repayable as follows:		
Within one year (note 15)	**9.3**	10.3
Between two and five years	**51.0**	86.0
After five years	**395.5**	410.9
Total over one year (note 15)	**446.5**	496.9

17. Financial risk management (continued)

c) Fair values

The fair values of the company's derivative financial instruments are set out in note 16. The fair value of the intercompany loan is £2,849.9m (2015: £2,928.2m). 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 2016, there were committed facilities for operating cash within the group of £280m (2015: £190m) in respect of which, all conditions precedents have been met at that date.

	2016	2015
	£m	£m
Expiring within one year:		
- Term loan facility	**70**	-
Expiring in more than one year:		
- Intercompany revolving credit facilities	**150**	120
- Term loan facility	**60**	70
	210	190
	280	190

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

The undrawn facilities of £280m comprise of £70 million with European Investment Bank (available until May 2016); £60 million with KfW-IPEX Bank GmbH (available until May 2017); and £150 million of revolving credit facilities, of which £20 million is available until 2019 and £130 million is available until 2020.

At 31 March 2016, Dŵr Cymru (Financing) Limited ("Financing") also had a special liquidity facility of £135m (2015: £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)

	2016	2015
	£m	£m
Total borrowings	**(2,943)**	(3,026)
Less: cash and cash equivalents	**135**	145
Net debt	**(2,808)**	(2,881)
Regulatory capital value (RCV)	**4,983**	4,831
Total capital	**2,175**	1,950
Less: unamortised bond costs and swap indexation	**(38)**	(5)
Total capital per bond covenants	**2,137**	1,945
Gearing ratio	**57%**	60%

As set out on page 19, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV.

18. 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 2015	17.7	1.8	4.6	3.6	1.2	28.9
Charged to income statement	-	-	0.8	0.6	-	1.4
Unused amounts reversed	-	(0.6)	-	-	-	(0.6)
Utilised in year	(11.8)	(0.2)	(1.5)	(0.3)	(0.1)	(13.9)
At 31 March 2016	**5.9**	**1.0**	**3.9**	**3.9**	**1.1**	**15.8**
Split as:						
Amounts to be utilised within one year	2.8	0.4	-	-	0.1	3.3
Amounts to be utilised after more than one year	3.1	0.6	3.9	3.9	1.0	12.5
At 31 March 2016	**5.9**	**1.0**	**3.9**	**3.9**	**1.1**	**15.8**

	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)	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	1.7	4.6	3.6	1.3	28.9

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 four 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.

19. Called-up share capital

	2016 £m	2015 £m
Authorised		
501,050,000 (2015: 501,050,000) ordinary shares of £1 each	**501.1**	501.1
Allotted and fully paid		
309,876,374 (2015: 309,876,374) ordinary shares of £1 each	**309.9**	309.9

20. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:	2016 £m	2015 £m
Operating profit	**160.8**	201.3
Adjustments for:		
- Depreciation and amortisation	**247.1**	178.5
- Changes in working capital:		
Increase in trade and other receivables	**(12.6)**	(7.2)
Decrease in trade and other payables	**(12.5)**	(1.9)
Pension contributions in excess of operating costs	**(1.6)**	(2.4)
Increase/(decrease) in provisions	**(13.1)**	12.5
	(39.8)	1.0
Cash generated from operations	**368.1**	380.8

21. Analysis and reconciliation of net debt

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

a) Net debt at the balance sheet date may be analysed as:	2016 £m	2015 £m
Cash and cash equivalents	**130.7**	269.1
Debt owed by parent company after one year	-	320.5
	130.7	589.6
Debt due after one year	**(2,408.3)**	(2,448.8)
Debt due within one year	**(64.1)**	(136.6)
Finance leases	**(455.8)**	(507.2)
Accrued interest	**(46.6)**	(57.8)
	(2,974.8)	(3,150.4)
Net debt	**(2,844.1)**	(2,560.8)

b) The movement in net debt during the year may be summarised as:	2016 £m	2015 £m
Net debt at start of year	**(2,560.8)**	(2,498.0)
Decrease in net cash	**(138.4)**	(79.0)
Increase in debt	**(140.6)**	46.0
Increase in net debt arising from cash flow	**(279.0)**	(33.0)
Movement in accrued interest	**11.2**	(8.3)
Indexation of index-linked debt	**(15.8)**	(28.6)
Repayment of loan to parent company	**320.5**	-
Accounting profit on lease termination	-	8.4
Dividend	**(320.5)**	-
Other non-cash movements	**0.3**	(1.3)
Movement in net debt during the year	**(283.3)**	(62.8)
Net debt at end of year	**(2,844.1)**	(2,560.8)

22. 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:

	2016	2015
	£m	£m
Salary (including benefits in kind)	**1,304**	1,213
Fees	**552**	590
	1,856	1,803
Long term incentive plan	**351**	345
Highest paid director: C A Jones (2015: C A Jones)		
Aggregate emoluments	**492**	504
Accrued pension under defined benefit scheme	**135**	125
Long term incentive plan	**134**	186

Retirement benefits are accruing to three directors (2015 – three) under defined benefit schemes. None of the directors is a member of the defined contribution scheme (2015: none).

For 2015-16, the Remuneration Committee measured performance targets which were linked directly to the achievement of the company's strategy. Approved performance in 2015-16 resulted in an AVPS award of between 70.3% and 71.3% compared to 79.4% for the Executive Directors in 2014-15.

Welsh Water's SIM rating relative to the SIM rating of the other water and sewerage companies over the three year performance period to 31 March 2016 will not be known until later in the year. At this time, it is forecast to be ranked 2nd. As a consequence, a provisional award of 22.5% is payable. The maximum potential is 30% of salary.

For the Customer Value element of the scheme measured from 1 April 2015 to 31 March 2016, a payment of 24% of salary has been made. This has been based on the Remuneration Committee's determination that total value generated for LTVPS purposes in the year ended 31 March 2016 was £118 million against a target of £114 (and a stretch of £124m). The reported total value created is £197 million which, for the purposes of assessing LTVPS performance, has been adjusted downwards by £79 million to reflect higher than expected inflation during the year and the deferment of certain capital schemes to future years.

(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

	2016	2015
	£m	£m
Wages and salaries	**102.5**	92.5
Social security costs	**9.5**	8.4
Other pension costs	**12.3**	11.2
	124.3	112.1

Average monthly number of people (including executive directors) employed by the company	**2016 Number**	2015 Number
Regulated water and sewerage activities	**2,900**	2,525

Of the above, £46.2m (2015: £45.5m) has been capitalised.

22. Employees and directors (continued)

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 :

	2016	2015
	£m	£m
Executive Directors	**1.9**	1.9
Other key personnel	**1.7**	1.7
	3.6	3.6

23. Pension commitments

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

The 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 2016 and the principal assumptions made by the actuaries were:

	2016	2015
Discount rate	**3.6%**	3.4%
Inflation assumption	**3.0%**	3.0%
Rate of increase in pensionable salaries	**3.0%**	2.0%
Rate of increase in pensions in payment	**2.9%**	2.9%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	**87.0 years**	87.2 yrs
- Current pensioners aged 65 - females	**88.9 years**	89.4 yrs
- Future pensioners aged 65 (currently aged 45) - males	**88.2 years**	88.6 yrs
- Future pensioners aged 65 (currently aged 45) - females	**90.4 years**	90.9 yrs

The mortality assumptions are the S2PXA base tables with future improvements in line with the CMI 2015 projection model with a long term trend rate of 1% per annum.

23. Pension commitments (continued)

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April 2015	**396.6**	**(366.1)**	**30.5**
Current service cost	10.0	-	10.0
Interest expense/income	13.4	(12.4)	1.0
Past service cost	-	-	-
Expenses	-	0. 5	0.5
	23.4	(11.9)	11.5
Remeasurements			
Gain from change in demographic assumptions	(4.5)	-	(4.5)
Loss from change in financial assumptions	20.4	-	20.4
Experience (gains)/losses	(7.5)	16.2	8.7
	8.4	16.2	24.6
Contributions	-	(12.1)	(12.1)
Benefits paid	(15.3)	15.3	-
	(15.3)	3.2	(12.1)
At 31 March 2016	**413.1**	**(358.6)**	**54.5**

	Present value of obligation £m	Fair value of plan assets £m	Total £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)	32.3
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

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

	2016 £m	2015 £m
Present value of funded obligations	**(413.1)**	(396.6)
Fair value of plan assets	**358.6**	366.1
	(54.5)	(30.5)
EFRBS unfunded liability	**(2.0)**	(2.0)
Net liability recognised in the balance sheet	**(56.5)**	(32.5)

23. Pension commitments (continued)

	2016	2015	2014	2013	2012	2011
Experience adjustments arising on scheme assets:						
Amount (£m)	**(16.2)**	(24.2)	2.9	17.9	(9.5)	(8.2)
Percentage of scheme assets	**(5%)**	(7%)	(3%)	(6%)	(4%)	(4%)
Experience adjustments arising on scheme liabilities:						
Amount (£m)	**(8.4)**	(60.7)	(5.1)	(15.7)	(16.4)	3.6
Percentage of the present value of scheme liabilities	**(2%)**	(15%)	(5%)	(5%)	(6%)	2%
Present value of scheme liabilities (£m)	**413.1**	396.6	320.1	323.3	272.8	238.4
Fair value of scheme assets (£m)	**358.6**	366.1	318.9	291.1	240.7	222.9
Deficit (£m)	**(54.5)**	(30.5)	(1.2)	(32.1)	(31.9)	(15.5)

The contributions paid in the year to 31 March 2016 include a special contribution of £1.3m (2015: 1.3m). There were no contributions paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2015: none) 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	0.10%	7.7m
Price inflation	0.10%	7.3m
Life expectancy	1 year	(9.1m)

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.

24. Contingent liabilities

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.

25. Capital and other financial commitments

The company's business plan at 31 March 2016 shows net capital expenditure and infrastructure renewals expenditure of £357m (2015: £332m) 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.

26. Related party transactions

Company interest payable to Dŵr Cymru (Financing) Limited (DCF), another member of the Glas Cymru Anghyfyngedig group, was £111.0m during the year (2015: £121,9m). As at 31 March 2016 the balance outstanding on the intercompany loan from DCF stood at £2,273.2m (2015: £2,270.9m). All borrowings raised by DCF are immediately on-lent to the company on an arms-length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%.

Dividends totalling £320,521,000 were declared and paid to Dŵr Cymru (Holdings) Limited in March 2016 and this was used to repay an intercompany loan from Dŵr Cymru Cyfyngedig (see note 12).

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

27. 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 Holdings 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 Anghyfyngedig, whose consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.

28. 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 2016 the market value of the trust fund was £111m (2015:£113m)

Interest receivable includes £3.5m (2015: £2.5m) in respect of distributions from the Elan Valley Trust Fund.