Registered Nº: 2366777

Dŵr Cymru Cyfyngedig

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

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COMPANIES HOUSE

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 2018. 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, which is wholly owned by Glas Cymru Anghyfyngedig. The ultimate holding company and controlling party is Glas Cymru Holdings Cyfyngedig, a company registered in England and Wales.

Full details and analysis of the operational performance of Dŵr Cymru Cyfyngedig during the year to 31 March 2018 is included in the published annual report and consolidated financial statements for Glas Cymru Holdings Cyfyngedig.

Directors and advisers

Directors

Alastair Lyons	Chairman
Chris Jones	Chief Executive
Peter Perry	Chief Operating Officer
Peter Bridgewater	Finance and Commercial Director
Menna Richards	Non-executive Director
Anna Walker	Non-executive Director
John Warren	Non-executive Director
Graham Edwards	Non-executive Director
Joanne Kenrick	Non-executive Director
Prof Thomas Crick	Non-executive Director (appointed October 2017)
Prof Stephen Palmer	Non-executive Director (resigned December 2017)

Company Secretary
Nicola Williams

Independent auditor
KPMG LLP
Cardiff

Solicitor
Linklaters LLP
London

Principal banker
National Westminster Bank Plc
Brecon

Strategic report

The directors present the strategic report of Dŵr Cymru Cyfyngedig for the year ended 31 March 2018.

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 Cyfyngedig is in a strong financial position as at 31 March 2018. Total revenue increased to £757 million (2017: £744 million); a modest increase of 2.0% reflecting Ofwat's PR14 Final Determination pricing adjustment and increased consumption has been partially offset by reduced revenues due to a higher number of customers benefiting from affordability tariffs. The income statement shows a loss before taxation of £46 million (2017: £64 million) which takes into account the fair value movements: A gain of £52 million in the market value of derivative financial instruments (2017: loss of £28 million). Operational expenditure at £318 million is £4 million higher than last year: A number of specific cost increases (severe weather incident costs, power price and employee costs) have been partially offset by lower insurance, IT costs and local authority rates. Infrastructure renewal expenditure has increased by £16 million in line with our higher level of capital investment in year three of the five year investment programme.The bad debt charge for the year has fallen to £22 million (2017: £23 million). Net interest payable of £172 million (excluding accounting gains or losses on derivatives noted above) was £31 million higher than the previous year primarily as a result of higher Retail Prices Index inflation.

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

Future developments
One of the advantages of our ownership model is that it allows us to focus on our single, clear vision to earn our customers' trust every day. We take a longer-term perspective in investing to deliver that vision for the benefit of future, as well as current, customers. The communities we serve face a number of future challenges, including climate change, population growth, wider environmental change and challenges to the nature of technology and the economy. These challenges will impact how we work at a time when we also need to manage a changing regulatory environment, especially as we monitor the possible implications of Brexit and prepare for further devolution of powers to the National Assembly for Wales through the provisions of the Wales Act 2017.
We are developing and consulting on "Welsh Water 2050" which sets out our long-term goals and are using that framework to start to create the detailed plans for the next price control ("PR19") and the outline plans for the subsequent 10 years.

Financial key performance indicators
The Company is part of a group controlled by Glas Cymru Holdings Cyfyngedig. The Directors of 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 Holdings Cyfyngedig which does not form part of this report (available on the Group's website at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx).

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

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

By order of the Board

N Williams
Company Secretary
7 June 2018

Directors' report

The Board has prepared a strategic report (page 3) which provides a summary of the development and performance of the Company's business in the year ended 31 March 2018 and comments on likely future developments.

The Directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2018 on pages 9 to 42.

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 2.

At 31 March 2018 Dŵr Cymru Cyfyngedig had 3,435 employees. Our success is dependent upon our having a highly committed and motivated work force,. We are commited to developing our people to meet the challenges of operating uor business in the future. We do not discriminate against applicants or employees on the basis of age , disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation ("protected characteristics" in accordance with the Equality Act 2010) or any other personal characteristic. If an employee is disables or becomes disabled, we consider any reasonable adjustments that would help overcome or minimse the disability. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability. The Company is commited to respecting human rights in respect of colleagues, supplpy chain and customers and monitors progress in this regard.

Occupational health and safety
We are committed to high standards of occupational health , safety and wellbeing and detail of our health and safety strategy and performance is provided in our 2018 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.

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

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. During the year a payment of £33,750 was made to Citizens Advice, to fund a debt advisor providing advice to our customers in Rhondda Cynon Taff, and a payment of £18,000 was made to Step Change to support the work the charity does in providing debt advice to our customers (2017: £18,270 to Step Change). We are disclosing these payments as both organisations also campaign for government policy change, including on debt issues, however, the funding provided was earmarked for specific debt advice. Other than this, no donations or payments were made which are required to be disclosed under section 366 of the Companies Act 2006.

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
No dividend was declared or paid in the year (2017: £30.2 million declared and paid).

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 2018 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

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

By order of the Board

N Williams
Company Secretary

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

7 June 2018

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

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

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

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

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

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

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

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

Opinion

We have audited the financial statements of Dŵr Cymru Cyfyngedig, (the "company") for the year ended 31 March 2018 which comprise the income statement, statement of comprehensive income, balance sheet , statement of changes in equity and cash flow statement and related notes, including the accounting policies in note 1.
In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

7 June 2018

Income statement for the year ended 31 March 2018

Continuing activities	Note	£m	2018 £m	£m	2017 £m
Revenue			**756.7**		743.6
Operating costs:					
- Operational expenditure	3	**(317.8)**		(313.8)	
- Infrastructure renewals expenditure	3	**(86.0)**		(69.7)	
- Depreciation and amortisation	3	**(275.8)**		(256.6)	
			(679.6)		(640.1)
Operating profit			**77.1**		103.5
- Profit on disposal of property, plant and equipment	3	**1.8**		-	
- Income from shares in group undertakings		**-**		2.9	
			78.9		2.9
- Finance costs payable and similar expenses	4a	**(181.0)**		(146.8)	
- Finance income receivable	4a	**3.9**		3.5	
- Fair value gains/(losses) on derivative financial instruments	4b	**52.3**		(27.5)	
			(124.8)		(170.8)
Loss before taxation			**(45.9)**		(64.4)
Taxation	5		**6.5**		20.9
Loss for the year			**(39.4)**		(43.5)

Statement of comprehensive income for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Loss for the year		**(39.4)**	(43.5)
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) recognised in the pension scheme	21	**12.2**	(43.3)
Related deferred tax	6	**(2.8)**	5.9
Revaluation of property, plant and equipment	7	**158.1**	156.8
Related deferred tax	6	**(26.9)**	(15.3)
		140.6	104.1
Total comprehensive income for the year		**101.2**	60.6

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

	Share capital £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2017	**309.9**	**166.2**	**552.9**	**152.9**	1,181.9
Loss for the year	-	-	-	(43.5)	(43.5)
Actuarial loss net of tax	-	-	-	(37.4)	(37.4)
Revaluation net of tax	-	-	141.5	-	141.5
Dividends paid	-	-	-	(30.2)	(30.2)
Transfer to retained earnings	-	-	(50.3)	50.3	-
At 31 March 2017	**309.9**	**166.2**	**644.1**	**92.1**	**1,212.3**
Loss for the year	-	-	-	(39.4)	(39.4)
Actuarial gain net of tax	-	-	-	9.4	9.4
Revaluation net of tax	-	-	131.2	-	131.2
Dividends paid	-	-	-	-	-
Transfer to retained earnings	-	-	(57.5)	57.5	-
At 31 March 2018	**309.9**	**166.2**	**717.8**	**119.6**	**1,313.5**

Balance sheet as at 31 March 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Property, plant and equipment	8	5,296.1	5,065.2
Intangible assets	9	146.0	119.5
Financial assets:			
- derivative financial instruments	14	1.9	2.2
		5,444.0	5,186.9
Current assets			
Trade and other receivables	10	576.2	562.5
Inventories		3.2	2.9
Financial assets:			
- derivative financial instruments	14	2.9	0.4
Cash and cash equivalents	11	274.8	68.0
		857.1	633.8
Total assets		6,301.1	5,820.7
Liabilities			
Current liabilities			
Trade and other payables	12	(567.5)	(559.6)
Financial liabilities:			
- borrowings	13	(40.9)	(38.7)
- derivative financial instruments	14	(28.2)	(34.3)
Provisions for other liabilities and charges	16	(2.4)	(1.3)
		(639.0)	(633.9)
Net current assets		218.1	(0.1)
Non-current liabilities			
Trade and other payables	12	(234.0)	(204.6)
Financial liabilities:			
- borrowings	13	(3,356.2)	(2,973.8)
- derivative financial instruments	14	(242.9)	(286.9)
Post-employment benefits	21	(80.4)	(95.2)
Provisions for other liabilities and charges	16	(7.5)	(10.6)
		(3,921.0)	(3,571.1)
Net assets before deferred tax		1,741.1	1,615.7
Deferred tax - net	6	(427.6)	(403.4)
Net assets		1,313.5	1,212.3
Equity			
Called-up share capital	17	309.9	309.9
Capital redemption reserve		166.2	166.2
Revaluation reserve	7	717.8	644.1
Retained earnings		119.6	92.1
Total equity		1,313.5	1,212.3

The financial statements on pages 9 to 42 were approved by the Board of Directors on 7 June 2018 and were signed on its behalf by:

P J Bridgewater
Finance and Commercial Director

Registered № 2366777

Cash flow statement for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	18	**348.7**	337.0
Interest paid		**(134.6)**	(124.8)
Income tax received		**0.3**	0.8
Net cash generated from operating activities		**214.4**	213.0
Cash flows from investing activities			
Interest received		**3.9**	3.5
Purchase of property, plant and equipment		**(302.1)**	(237.9)
Purchase of intangible assets		**(48.2)**	(33.5)
Income from shares in group undertakings		**-**	2.9
Grants and contributions received		**11.4**	16.1
Proceeds from sale of property, plant and equipment		**2.5**	-
Net cash outflow from investing activities		**(332.5)**	(248.9)
Net cash flow before financing activities		**(118.1)**	(35.9)
Cash flows from financing activities			
Repayment of borrowings		**(0.2)**	(36.9)
Bond issue costs		**(0.5)**	-
Intercompany loan received		**297.0**	-
Dividend paid		**-**	(30.2)
Long term loan received		**60.0**	70.0
Loan repaid to group undertaking		**(21.6)**	(20.3)
Finance lease principal payments		**(9.8)**	(9.3)
Other loan repayments		**-**	(0.1)
Net cash flow from financing activities		**324.9**	(26.8)
Increase/(decrease) in cash and cash equivalents	19b	**206.8**	(62.7)
Cash and cash equivalents at 1 April		**68.0**	130.7
Cash and cash equivalents 31 March	11	**274.8**	68.0

Notes to the financial statements

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2018

Dŵr Cymru Cyfyngedig ("the Company") is a private company incorporated, domiciled and registered in Wales, in the UK. The registered number is 2366777 and the registered address is Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

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

Basis of Preparation

The financial statements of Dŵr Cymru Cyfyngedig have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU ("Adopted "IFRS's") and approved by the directors. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed assets, financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

Going concern

As described in the financing risk management section the Company meets its day to day working capital requirement through its bank facilities. 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.

Changes in accounting policies and disclosures

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

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

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

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

Revenue recognition

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

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

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

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

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

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

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

Property, plant and equipment comprise:

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

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

Infrastructure assets

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

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

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

Other assets

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

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

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

Borrowing costs

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

Intangible assets

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

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

Leased assets

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

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

Grants and customer contributions

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

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

Capital expenditure programme incentive payments

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

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

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

Trade receivables

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

Cash and cash equivalents

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

Pension costs

i) **Defined benefit scheme**

The Company operates a defined benefit sceme, the DCWW Pension Scheme, which was closed to furture accrual from 1 April 2017 for all members except for 18 ESPS section membeers. The scheme is funded by employer contributions as well as employee contributions from the remaining active members. Contribution rates are based on the advice of a professionally qualified actuary and actuarial valuations of the scheme are carried out at least every three years.

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

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

Past-service costs are recognised immediately in income.

ii) **Defined contribution scheme**

The Company operates a defined contibution scheme, the DCWW Group Personal Pension Plan, which all employees are eligible to join. Obligations for contributions to the sceme are recognised as an expense in the income statement in the period in which they arise.

Financial liabilities

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

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

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

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

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

Taxation

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

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

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

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

Provisions

Provisions for restructuring costs, dilapidations, uninsured losses and losses on swap closure are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been estimated reliably. Restructuring provisions comprise employee severance and pension fund top-up costs. Where the Company receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities. Provisions are not recognised for future operating losses.

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

Estimates

The preparation of financial statements in comforming with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 21.

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

Financing risk management

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

Credit risk

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

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

Interest rate risk

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

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total Group borrowings of £3,360m as at 31 March 2018 (2017: £2,978m), none related to floating rate debt (2017: none). The Company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2018, 100% (2017: 100%) of the Group's gross debt was at fixed or index-linked ("RPI") rates of interest after taking into account interest rate and RPI swaps. The hedges established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £266 million in the balance sheet at 31 March 2018 (2017: £319m) but, assuming that the swaps are held to maturity, this will ultimately reduce to £nil.

Power price hedges

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

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of Group borrowings of £3,309m (2017: £2,923m) can fall due in any 24 month period.

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

Financing risk management (continued)

Liquidity risk

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

Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the Group is required to have cash available to fund operations for 12 months. As at 31 March 2018, the Group had committed undrawn borrowing facilities of £420m (2017: £460m) and cash and cash equivalents (excluding debt service payments account) of £294m (2017: £95m).

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

As at 31 March 2018 there was also a special liquidity facility of £135 million (2017: £135 million); this is required in order to meet certain interest and other obligations that cannot be funded through operating cash flow, in the event of a standstill being declared by the security trustee, following an event of default under the Group's debt financing covenants. The facility is renewable on an annual basis.

Capital risk

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Group operates, the Group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the Group's borrowing covenants) as a proportion of its Regulatory Capital Value (RCV) as linked to movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2018 gearing was 57% (2017: 56%).

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

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

Critcial accounting estimates and judgements

Provision for impairment of trade receivables

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

Pension benefits

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

Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2018 was £70.8 million (2017: £68.8 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.5 million (2017: £0.5 million).

Fair Value Estimatiom

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

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

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

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

All of the Company's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2018 were valued as follows:
Assets: trading derivatives £4.8m, Treasury derivatives £nil. (March 2017: Trading derivatives £2.6m, Treasury derivatives £nil).

Liabilities: trading derivatives £0.3m, Treasury derivatives £270.9m. (March 2017: Trading derivatives 3.3m, Treasury derivatives £317.9m).

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

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

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

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

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

Critical accounting estimates and judgements (continued)

Capitalisation

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

2. Segmental information

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

3. Loss before taxation

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

	Total 2018 £m	Total 2017 £m
Operating expenditure		
Power	**42.7**	42.4
Chemicals	**9.6**	9.3
Materials and equipment	**5.5**	5.5
Vehicles and plant	**8.5**	7.8
Office expenses	**13.8**	10.3
Property costs	**4.0**	3.5
Insurance	**4.1**	5.7
Sewerage contractors	**19.8**	18.5
Laboratories and analytical services	**0.8**	0.7
Collection commissions	**4.2**	3.6
IT Contracts	**11.1**	16.2
Bought-in services and other costs	**33.0**	35.1
	157.1	158.6
Employee costs (note 20)	**151.1**	134.4
Staff costs capitalised	**(53.8)**	(48.3)
	97.3	86.1
Research and development credit	**(1.4)**	-
Trade receivables impairment	**22.1**	23.3
Rates	**26.9**	30.5
Natural Resources Wales/Environment Agency charges	**15.3**	14.8
Fees payable to auditors	**0.5**	0.5
Total operational expenditure	**317.8**	313.8
Infrastructure renewals expenditure	**86.0**	69.7
Depreciation and amortisation		
- Depreciation property, plant and equipment	**259.3**	241.4
- Release of deferred income	**(5.2)**	(4.5)
- Amortisation of intangible assets	**21.7**	19.7
Total depreciation and amortisation	**275.8**	256.6
Total operating costs	**679.6**	640.1

3. Loss before taxation (continued)

Services provided by the Company's auditors

During the year the group headed by Glas Cymru Holdings Cyfyngedig obtained the following services from its auditors, all of which were paid by the Company:

	2018	2017
Audit fees	**£000**	£000
Audit of parent company and consolidated financial statements	**20**	20
Audit of subsidiary companies	**139**	120
Total audit fees	**159**	140
Audit-related assurance services		
Review of interim financial statements	**22**	22
Regulatory audit services pursuant to legislation	**48**	39
Regulatory price review assurance work	**-**	14
Scheme of charges assurance work	**26**	25
Investor report reviews	**6**	6
Environment Agency levy assurance work	**3**	3
Bond issuance assurance work	**38**	-
Wholesale charges assurance work	**-**	22
Total audit and audit-related assurance services	**302**	271
Other services		
Pensions advice	**80**	37
Tax advisory services	**-**	17
Assurance on market opening	**-**	25
Assurance on commercial activities	**58**	85
Legal services advice including payroll, reward and data analytics services regarding Gender Pay Gap reporting and a voluntary equal pay audit	**65**	30
Total other services	**203**	194
Total cost of services provided by the Group's auditors	**505**	462

4. Financing costs

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

	2018	2017
	£m	£m
Interest payable on loans	(153.8)	(128.2)
Interest payable on finance leases (including swaps to RPI)	(20.8)	(18.5)
Other interest payable and finance costs	(20.3)	(7.8)
Net interest charge on pension scheme liabilities	(2.5)	(1.8)
Capitalisation of borrowing costs under IAS 23 (2018: 6.1%; 2017: 5.2%)	16.4	9.5
	(181.0)	(146.8)
Finance income	3.9	3.5
Net finance cost before fair value adjustments	(177.1)	(143.3)

Included within interest payable are amounts payable to group undertakings of £144.5m (2017: £124.3m).

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

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

	2018	2017
	£m	£m
Fair value gains/(losses) on interest rate swaps	3.6	(2.6)
Fair value gains/(losses) on index-linked swaps	43.4	(33.5)
Fair value gains on trading derivatives	5.3	8.6
Total fair value gains/(losses) on derivative financial instruments	52.3	(27.5)

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

5. Taxation

	2018	2017
	£m	£m
Current tax		
- Current tax on loss for the year	0.4	1.0
- Current tax on research and development credit	(0.3)	-
- Adjustment in respect of prior years	0.9	0.2
Total current tax	1.0	1.2
Deferred tax		
- Origination and reversal of timing differences	6.2	9.8
- Adjustment in respect of prior years	(0.7)	1.9
- Effect of tax rate change	-	11.8
Total deferred tax (note 6)	5.5	19.7
Taxation credit	6.5	20.9

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

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

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

5. Taxation (continued)

The effective rate of tax for the year is higher (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018	2017
	£m	£m
Loss before tax	**(45.9)**	(64.4)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2017: 20%)	**(8.7)**	(12.9)
Effect of:		
Adjustments in respect of prior years	**(0.2)**	1.7
Other permanent differences	**2.5**	2.7
Effect of pension payments in excess of service charge	**(0.7)**	(1.0)
Effect of deferred tax rate change	**-**	(11.8)
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	**0.6**	1.0
Dividend income (non-taxable)	**-**	(0.6)
Total taxation (credit)	**(6.5)**	(20.9)

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2017: 17%).

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

	2018	2017
	£m	£m
At 1 April	**403.4**	413.7
Credit to income statement	**(5.5)**	(19.7)
Charge to statement of comprehensive income	**26.9**	15.3
Charge/(credit) to revaluation reserve	**2.8**	(5.9)
At 31 March	**427.6**	403.4

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

	2018	2017
	£m	£m
Defined benefit pension scheme	**2.1**	(7.8)
Reallocation of tax from income statement- pension payment in excess of service charge	**0.7**	1.0
Change in deferred corporation tax rate – pension scheme	**-**	0.9
	2.8	(5.9)
Revaluation of fixed assets using a tax rate of 17% (2017: 18%)	**26.9**	28.2
Reduction in deferred corporation tax rate – revaluation of fixed assets	**-**	(12.9)
	26.9	15.3

	2018	2017
	£m	£m
Effect of:		
Tax allowances in excess of depreciation	**250.7**	284.9
Deferred tax on revaluation of fixed assets	**234.1**	219.0
Capital gains rolled over	**2.7**	2.7
Deferred tax liability	**487.5**	506.6
Deferred tax on tax losses carried forward	**-**	(31.8)
Deferred tax on losses on derivative financial instruments	**(45.2)**	(54.1)
Pensions	**(12.9)**	(15.7)
Other tax differences	**(1.8)**	(1.6)
Net provision for deferred tax	**427.6**	403.4

6. Deferred tax (continued)

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.

7. Revaluation reserve

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

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

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

	2018	2017
	£m	£m
Revaluation reserve as at 1 April	**644.1**	552.9
Revaluation of assets to RCV	**158.1**	156.8
Depreciation charge on revalued assets	**(69.3)**	(61.3)
	88.8	95.5
Deferred tax on revaluation	**(26.9)**	(15.3)
Deferred tax on depreciation charge	**11.8**	11.0
	(15.1)	(4.3)
Revaluation reserve as at 31 March	**717.8**	644.1

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

The net book value of property, plant and equipment includes £278.5m in respect of assets in the course of construction (2017: £207.6m) and £55.4m of borrowing costs capitalised in accordance with IAS 23 (2017: £42.9m), of which £14.1m were additions in the year (2017: £8.4m).

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 2018			
Valuation	669.9	117.7	787.6
Accumulated depreciation	-	(77.7)	(77.7)
Net book value	**669.9**	**40.0**	**709.9**

8. Property, plant and equipment (continued)

Prior Year	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost or valuation					
At 1 April 2016	41.6	2,090.2	3,681.9	262.4	6,076.1
Revaluation	-	24.3	-	-	24.3
Additions net of grants and contributions	0.1	122.1	184.2	2.1	308.5
Disposal	-	-	-	(0.4)	(0.4)
At 31 March 2017	41.7	2,236.6	3,866.1	264.1	6,408.5
Accumulated depreciation					
At 1 April 2016					
Revaluation	19.8	-	955.3	259.7	1,234.8
Charge for the year	-	(43.8)	(88.7)	-	(132.5)
Released on disposal	0.8	43.8	192.7	4.1	241.4
At 31 March 2017	-	-	-	(0.4)	(0.4)
	20.6	-	1,059.3	263.4	1,343.3
Net book value					
At 31 March 2017	21.1	2,236.5	2,806.9	0.7	5,065.2
At 31 March 2017 (historic cost)	21.1	1,662.8	2,092.4	0.7	3,777.0

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

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

9. Intangible assets

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

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

Intangible fixed assets comprise computer software and related system developments.
The net book value of intangible assets includes £36.7m in respect of assets in the course of construction (2017: £20.0m)
The net book value of intangible assets includes £5.6m of borrowing costs capitalised in accordance with IAS 23 (2017: 3.6m) of which £2.3m were additions in the year (2017: £1.1m).

10. Trade and other receivables

	2018 £m	2017 £m
Current		
Trade receivables	**556.7**	556.6
Less provision for impairment of receivables	**(83.8)**	(95.8)
Trade receivables - net	**472.9**	460.8
Prepayments and accrued income	**87.2**	89.9
Other receivables	**16.1**	11.8
Total trade and other receivables	**576.2**	562.5

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

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

The ageing of these receivables was as follows:

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

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

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

10. Trade and other receivables (continued)

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

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

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

The other classes 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 £32.8m of debt which had been provided for in full (2017: £12.3m).

The maximum exposure to credit risks at the reporting date is the carrying value of each class of receivable mentioned above.

The Company holds around 4,100 charging orders as collateral against £9m of debt.

11. Cash and cash equivalents

	2018	2017
	£m	£m
Cash at bank and in hand	7.4	4.1
Short-term deposits	267.4	63.9
	274.8	68.0

The effective interest rate on short-term deposits as at 31 March 2018 was 0.5% (2017: 0.2%) and these deposits had an average maturity of 24 days (2017: 15 days). With the exception of €76,000, all cash and cash equivalents are held in sterling.

Cash at bank and in hand as at 31 March 2018 includes the effect of uncleared cheque and BACS payments.

12. Trade and other payables

	2018	2017
	£m	£m
Current		
Trade payables	45.1	44.6
Capital payables	60.3	65.8
Amounts due to group undertakings	4.1	3.2
Social security and other taxes	3.4	7.0
Accruals and deferred income	451.6	439.0
Corporation tax	3.0	-
	567.5	559.6

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

13. Financial liabilities – borrowings

	2018	2017
Current	**£m**	£m
Overdrawn funds	**5.7**	5.9
Interest accruals	**0.3**	0.2
Loans due to group undertakings	**22.8**	22.0
Other unsecured loans	**0.1**	0.1
Finance lease obligations	**12.0**	10.5
	40.9	38.7

	2018	2017
Non-current	**£m**	£m
Interest accruals	**48.8**	48.1
Loans due to group undertakings	**2,576.4**	2,252.1
Term loan	**306.6**	237.1
Other unsecured loans	**0.5**	0.5
Finance lease obligations	**423.9**	436.0
	3,356.2	2,973.8

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

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

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

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

The Group's Class A Bonds of £1,008m (2017: £989m) benefit from a guarantee from Assured Guaranty (London) Limited ("AG"). AG's credit rating has been reduced to Baa2 and A by Moody's and Standard and Poor's 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 A2/A/A from Moody's, Standard and Poor's and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the AG guarantee, and is the same as the rating of the Group's Class B bonds of £1,350m (2017: £1,023m).

14. Derivative financial instruments

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

2018	**Fair values**	
	Assets £m	**Liabilities £m**
Current		
Index-linked swaps	-	(19.2)
Interest rate swaps (intercompany)	-	(9.0)
Power hedging swaps	2.9	-
	2.9	(28.2)
Non-current		
Index-linked swaps	-	(161.7)
Interest rate swaps (intercompany)	-	(80.9)
Power hedging swaps	1.9	(0.3)
	1.9	(242.9)
Total	4.8	(271.1)

2017	**Fair values**	
	Assets £m	**Liabilities £m**
Current		
Index-linked swaps	-	(24.9)
Interest rate swaps (intercompany)	-	(9.2)
Power hedging swaps	0.4	(0.2)
	0.4	(34.3)
Non-current		
Index-linked swaps	-	(199.5)
Interest rate swaps (intercompany)	-	(84.3)
Power hedging swaps	2.2	(3.1)
	2.2	(286.9)
Total	2.6	(321.2)

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

15. Financing risk management

The policies of the Company in respect of financing 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:

	2018	2017
Assets:		
Cash and cash equivalents	**0.5%**	0.2%
Liabilities:		
Intercompany loans	**3.9%**	4.0%
Term loans	**0.28%**	0.01%
Other unsecured loans	**5.0%**	5.0%
Finance lease obligations	**0.6%**	0.7%

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

The effective interest rates ignore the effect of the interest rate and index-linked swaps set out in note 14. They also exclude the indexation charge applicable to certain portions of the intercompany loan.

b) Liquidity risk

2018	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	**274.8**	-	-	-	**274.8**
Trade and other receivables	**576.2**	-	-	-	**576.2**
	851.0	-	-	-	**851.0**
Liabilities:					
Cash and cash equivalents	**5.7**				**5.7**
Intercompany loan	**22.8**	**30.3**	**399.4**	**2,148.5**	**2,601.0**
Term loans	-	-	**81.4**	**225.2**	**306.6**
Other unsecured loans	**0.1**	**0.1**	**0.4**	-	**0.6**
Finance lease obligations	**12.0**	**13.5**	**32.8**	**377.6**	**435.9**
Trade and other payables	**567.4**	**5.2**	**15.6**	**213.1**	**801.3**
Future interest payable	**108.6**	**113.0**	**342.2**	**1,023.8**	**1,587.6**
	716.6	**162.1**	**871.8**	**3,988.2**	**5,738.7**

2017	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets:					
Cash and cash equivalents	68.0	-	-	-	68.0
Trade and other receivables	562.5	-	-	-	562.5
	630.5	-	-	-	630.5
Liabilities:					
Cash and cash equivalents	5.9	-	-	-	5.9
Intercompany loan	22.0	22.0	428.7	1,801.4	2,274.1
Term loans	-	-	60.3	176.8	237.1
Other unsecured loans	0.1	0.1	0.4	-	0.6
Finance lease obligations	10.6	12.0	45.4	378.5	446.5
Trade and other payables	559.6	1.8	4.9	197.9	764.2
Future interest payable	100.2	102.0	308.6	898.5	1,409.3
	698.4	137.9	848.3	3,453.1	5,137.7

Notes to the financial statements (continued)

15. Financing risk management (continued)

The minimum payments under finance leases fall due as follows:

	2018 £m	2017 £m
Gross finance lease liabilities		
Within one year	**15.9**	19.6
Between two and five years	**82.1**	99.2
After five years	**438.3**	439.6
	536.3	558.4
Future interest	**(100.4)**	(111.9)
Net finance lease liabilities	**435.9**	446.5
Net finance lease liabilities are repayable as follows:		
Within one year (note 13)	**12.0**	10.5
Between two and five years	**46.3**	57.4
After five years	**377.6**	378.6
Total over one year (note 13)	**423.9**	436.0

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 £3,374.3m (2017: £3,159.1m).

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

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

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

At 31 March 2018, there were committed undrawn facilities for operating cash within the Group of £420 million (2017: £460) in respect of which, all conditions precedents have been met at that date.
Those undrawn facilities comprised £250 million with European Investment Bank (available until January 2019) and £170 million of revolving credit facilities (available until 2020).

At 31 March 2018, a fellow subsidiary, Dŵr Cymru (Financing) Limited also had a special liquidity facility of £135m (2017: £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.

15. Financing risk management (continued)

e) Capital risk management

Gearing ratios (group)

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

As set out on page 20, the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV.

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

16. Provisions

	Restructuring provision £m	Uninsured loss provision £m	Other provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2017	4.0	4.3	2.7	0.9	11.9
Charged to income statement	-	(0.1)	-	-	(0.1)
Unused amounts reversed	-	-	(0.1)	-	(0.1)
Utilised in year	(1.6)	-	(0.2)	-	(1.8)
At 31 March 2018	**2.4**	**4.2**	**2.4**	**0.9**	**9.9**
Split as:					
Amounts to be utilised within one year	1.0	1.3	0.1	-	2.4
Amounts to be utilised after more than one year	1.4	2.9	2.3	0.9	7.5
At 31 March 2018	**2.4**	**4.2**	**2.4**	**0.9**	**9.9**

	Restructuring provision £m	Uninsured loss provision £m	Other provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2016	5.9	3.9	4.9	1.1	15.8
Charged to income statement	-	1.7	(0.2)	-	1.5
Utilised in year	(1.9)	(1.3)	(2.0)	(0.2)	(5.4)
At 31 March 2017	4.0	4.3	2.7	0.9	11.9
Split as:					
Amounts to be utilised within one year	1.0	-	0.2	0.1	1.3
Amounts to be utilised after more than one year	3.0	4.3	2.5	0.8	10.6
At 31 March 2017	4.0	4.3	2.7	0.9	11.9

16. Provisions (continued)

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

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 within five years.

Other provision
Other provisions are made 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.

17. Called-up share capital

	2018 £m	2017 £m
Authorised		
501,050,000 (2017: 501,050,000) ordinary shares of £1 each	**501.1**	501.1
Allotted and fully paid		
309,876,374 (2017: 309,876,374) ordinary shares of £1 each	**309.9**	309.9

18. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:	2018 £m	2017 £m
Operating profit	**77.1**	103.5
Adjustments for:		
- Depreciation and amortisation	**275.8**	256.6
- Changes in working capital:		
Increase in trade and other receivables	**(13.7)**	(14.5))
Increase in trade and other payables	**16.9**	2.2
Increase in Inventories	**(0.3)**	(0.7)
Pension contributions above service cost	**(5.1)**	(6.2)
Decrease in provisions	**(2.0)**	(3.9)
	(4.2)	(23.1)
Cash generated from operations	**348.7**	337.0

19. 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:	2018 £m	2017 £m
Cash and cash equivalents	274.8	68.0
	274.8	68.0
Debt due after one year	(2,883.5)	(2,489.7)
Debt due within one year	(28.7)	(28.0)
Finance leases	(435.9)	(446.5)
Accrued interest	(49.0)	(48.3)
	(3,397.1)	(3,012.5)
Net debt	(3,122.3)	(2,944.5)

b) The movement in net debt during the year may be summarised as:	2018 £m	2017 £m
Net debt at start of year	(2,944.5)	(2,844.1)
Movement in net cash	206.8	(62.7)
Movement in debt	(324.0)	(3.4)
Movement in net debt arising from cash flow	(117.2)	(66.1)
Movement in accrued interest	(0.7)	(1.7)
Indexation of index-linked debt	(60.1)	(32.9)
Other non-cash movements	0.2	0.3
Movement in net debt during the year	(177.8)	(100.4)
Net debt at end of year	(3,122.3)	(2,944.5)

20. Employees and directors

a) Directors' emoluments

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

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

20. Employees and directors (continued)

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

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

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

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

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

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

b) Staff costs during the year

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

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

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

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

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

21. Pension commitments

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

The DCWW Pension Scheme was closed to new members from 31 December 2005 and closed for future accruals from 1 April 2018. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2016 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated at 31 March 2018 and the principal assumptions made by the actuaries were:

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

	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**
At 1 April 2017	497.3	(404.9)	92.4
Current service cost	0.3	-	0.3
Interest expense/income	13.5	(11.0)	2.5
	13.8	(11.0)	2.8
Remeasurements			
Loss from change in financial assumptions	(8.7)	-	(8.7)
Experience (gains)/losses	-	(3.5)	(3.5)
	(8.7)	(3.5)	(12.2)
Contributions	-	(6.9)	(6.9)
Benefits paid	(28.3)	28.3	-
	(28.3)	21.4	(6.9)
At 31 March 2018	**474.1**	**(398.0)**	**76.1**

21. Pension commitments (continued)

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

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

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

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

	Change in assumption	**Increase in liabilities**
Discount rate	0.10%	£8.9m
Price inflation	0.10%	£8.7m
Life expectancy	1 year	£12.5m

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

22. Capital and other financial commitments

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

23. Related party transactions

Company interest payable to Dŵr Cymru (Financing) Limited ("DCF"), another member of the Glas Cymru Holdings Cyfyngedig Group, was £144,527,000 during the year (2017: £124,339,000). As at 31 March 2018 the balance outstanding on the intercompany loan from DCF stood at £2,560,975,000(2017: £2,279,260,000). 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%.

During the year, costs incurred by Cambrian Utilities Limited (£300,458) and Welsh Water Infrastructure Limited (£69,864) were paid by the Company on their behalf. These transactions have been reported as intercompany loans payable.

During the year no dividends were paid or received (2017: £30,226,000 paid to Dŵr Cymru (Holdings) Limited).

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

24. Elan Valley Trust Fund

In 1984 Dŵr Cymru Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7 million, representing the consideration for the conditional sale, was invested in a trust fund. The principal function of the fund was to provide an income to Dŵr Cymru Authority, whilst preserving the capital value of the fund in real terms. Dŵr Cymru Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989.

The assets of the fund are not included in these financial statements. As at 31 March 2018 the market value of the trust fund was £115m (2017: £118m).

Interest receivable includes £2.8m (2017: £2.7m) in respect of distributions from the Elan Valley Trust Fund.

25. 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.

26. 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 Holdings Cyfyngedig and Glas Cymru Anghyfyngedig consecutively. Both consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.