

Registered N^o: 2366777

Dŵr Cymru Cyfyngedig

Annual report and financial statements
for the year ended 31 March 2019

Registered office
Pentwyn Road
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Mid Glamorgan
CF46 6LY

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Directors and advisers

Directors

A Lyons	Chairman
C Jones	Chief Executive
P Perry	Chief Operating Officer
P Bridgewater	Finance and Commercial Director
M Richards	Non-executive Director
A Walker	Non-executive Director
J Warren	Non-executive Director
G Edwards	Non-executive Director
J Kenrick	Non-executive Director
T Crick	Non-executive Director

Company Secretary

N 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 2019.

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

The Company is in a strong financial position as at 31 March 2019; gearing remains low at 58% (2017-18: 57%) and we have retained our sector-leading credit ratings.

Revenue: Dŵr Cymru's turnover in the year to 31 March 2019 rose slightly to £780m (2018: £757m). A price increase of 2.0% in line with Ofwat's PR14 Final Determination and increased consumption during a hot, dry summer of 2018 have been partially offset by reduced revenues due to a higher number of customers benefiting from subsidised tariffs.

Operational items: Dŵr Cymru incurred total operational costs (excluding infrastructure renewals expenditure on maintaining our underground pipe network and depreciation) of £334m (2018: £318m). A number of specific cost increases (costs relating to the atypical summer weather: employment, power and network leakage) have been partially offset by the lower cost of renegotiated IT contracts, lower business rates and a reduction in the bad debt charge.

Financing costs: net interest payable of £169m (excluding accounting gains or losses on derivatives noted below) was £8m lower than the previous year, primarily as a result of lower Retail Prices Index inflation. Dŵr Cymru has a number of derivative swap contracts which fix or inflation-link the cost of debt which were entered into when the Company was highly geared. While these are effective commercial hedges, they do not qualify for hedge accounting under IFRS 9. Changes in market values create volatility in the income statement and fair value losses in 2018-19 amounted to £17m (2018: gains of £52m). There is, however, no impact on cash flows: the Company intends to hold its remaining swaps to the maturity of the underlying debt and, over the life of the swaps, such gains and losses will revert to zero.

Taxation: the Company continues to invest heavily in capital expenditure for the benefit of our customers. The tax relief for this capital expenditure and the interest we pay to fund it have the effect of delaying corporation tax payments to future periods. A tax credit of £0.3m has been generated from the surrender of tax losses relating to our investment in energy efficient capital expenditure under a Government-approved scheme. The Company has also claimed a tax credit of £0.5m under the Government's Research & Development Expenditure Credit (RDEC) initiative, which has been included within operating expenditure in Note 3.

Loss before tax: the income statement shows a loss before taxation of £115m (2018: loss of £46m) which takes into account the variances discussed above, including inflation and fair value movements. Operating profit has fallen from £77m last year to £71m; while infrastructure renewals expenditure has remained steady, in line with continued high levels of capital investment. Depreciation is £16m higher than the prior year principally due to the revaluation of fixed assets.

Pension funding: the statement of comprehensive income reports a defined benefit pension scheme actuarial loss of £20m (2018: gain of £12m) and the balance sheet liability as at 31 March 2019 was £96m (2018: £80m). This valuation is on an IAS 19 basis for accounting purposes and is not consistent with the actuarial valuation of the scheme for funding purposes. The latest such valuation of the scheme will be completed later in the year. As at 31 March 2016, the actuarial valuation projected a deficit, recoverable by payments of £7m per annum until 2019 and then £3m per annum until 2030. Exposure to any significant additional future liabilities was mitigated by the closure of the majority of sections of the scheme with effect from 1 April 2017.

Financial position: the balance sheet shows net assets of £1,309m at 31 March 2019 (2018: £1,314m). Excluding non-cash fair value adjustments for derivative financial instruments, referred to above, the Company has net assets of £1,592m (2018: assets of £1,580m).

Capital investment: Dŵr Cymru's strong financial position has been built up over the last 18 years, and provides a stable base from which it can respond positively to the challenges of economic uncertainty and drive forward its continuing large capital programme. Dŵr Cymru works with an alliance of contracting partners to deliver the capital investment programme at the best value for money for customers. Total net capital expenditure during the year (including infrastructure renewals expenditure) was £452m (2018: £415m).

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).

Strategic report (continued)

Future developments

Customers are at the heart of everything we do. We measure our performance via eight “Outcomes” which are based on broad groupings of targets set by Ofwat at the last price review – “Outcome Delivery Incentives” (ODIs). The groupings represent the key elements of the essential services we provide to our customers across our supply area.

The regulatory targets are supplemented by our internal business and financial planning processes. Every year targets are discussed and agreed by the Board of Directors. The Executive team is held to account by our Non-Executive Directors to ensure that the targets are sufficiently challenging and to monitor performance in accordance with those targets.

Our Company vision to Earn the Trust of our Customers Every Day underpins our approach to delivering services, and the Board is conscious of the need to set targets which maintain and build on that trust.

The Board also takes the opportunity to understand the views expressed by customers and other stakeholders in the extensive engagement exercises undertaken as part of establishing Welsh Water 2050, and in the context of setting the Company’s five year business plans for 2015-20 and 2020-25.

Working on our Welsh Water 2050 Strategy for the next 30 year period has allowed us to examine the role we play in the communities we serve and to have a meaningful dialogue with our customers about how we will meet the external challenges over time.

Our detailed business plan for the next five year period, 2020-25 seeks to balance ensuring the affordability of the essential services we provide with the investment needed to maintain a resilient infrastructure. All gains eventually go to our customers, so that the interests of the Company and of customers are aligned, and the strategic direction of the Company takes this into account.

As well as delivering excellent service for customers, we need to manage costs carefully to keep bills as affordable as possible. The Board sets the Executive Remuneration policy which includes a significant element of variable pay, dependent on the Executive Directors delivering strong and consistent performance which achieves improved services for customers.

This is reinforced by a focus on transparency and honesty in all communications with our Members, customers and regulators, acknowledging those areas where we can still do better, and building on the progress we have made to deliver better service to customers.

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;
- failure to achieve required performance levels and efficiencies during the period 2015-2020;
- major supply failure;
- loss of key talent, capability and competence;
- ICT risk;
- tough regulatory settlement post 2020;
- uncertainty following Brexit; and
- failure to earn the trust and confidence of our customers.

Brexit

For the UK as a whole the last year has, of course, been dominated by Brexit and the Company committed much time and effort to assessing its potential impact, in particular that of a “No Deal” Brexit on the unrestricted supply of chemicals used in treatment processes. We were very pleased to be able to make a material contribution to UK-wide planning by Peter Perry, our Managing Director, playing a leading role in the Water UK industry’s taskforce in consultation with the UK and Welsh Governments, and regulators.

By order of the Board.

N Williams
Company Secretary
6 June 2019

Directors' report

The Board has prepared a Strategic report (page 2) which provides a summary of the development and performance of the Company's business in the year ended 31 March 2019 and comments on likely future developments. Full details and analysis of the operational performance of Dŵr Cymru Cyfyngedig during the year to 31 March 2019 is included in the published annual report and consolidated financial statements for Glas Cymru Holdings Cyfyngedig.

The Directors have pleasure in presenting their annual report, together with the audited financial statements for the year ended 31 March 2019 on pages 10 to 44.

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 1.

At 31 March 2019, the Company had 3,630 employees (2018: 3,435). Our success is fundamentally dependent upon our highly engaged and motivated people and we are committed to developing our people to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities that we serve (see "Corporate social responsibility" below).

Health and safety

Our health and safety performance for the year is encouraging and reflects the extensive efforts throughout the Company to instil a culture of proactive reporting and a safety-first mindset for every role in the Company. The number of RIDDORS (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) – injuries that need to be reported to the Health and Safety Executive (HSE) – has reduced from 14 last year, to a record low of 8 over the year. However, we consider any serious injury as one too many – and will continue our efforts to reach our ultimate aim of zero lost time injuries. Four of the RIDDORS during the year were sustained by our key Alliance and engineering partners and we have a particular focus on working with our supply chain to improve outcomes.

Innovation

Our innovation portfolio continues to grow with 467 ideas and proposals now assessed through our iLab process since we started in April 2015. We have completed some 92 projects, winning eight innovation awards in the process and worked with 123 partner organisations investing some £4.6m in 2018/19 in these projects. This work continues to drive efficiencies, reduce our environmental footprint, and improve our health and safety.

As well as investing in driving innovative change, we continue to work closely with our Independent Environmental Advisory Panel (made up of regulators, academics and environmental stakeholders) who advise the business on the science and research we undertake. The Panel continues to assist us in tapping 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, in particular.

More generally, we continue to drive elements of the national research agenda through our strategic relationship with the National Environmental Research Council (NERC) and UKRI more generally, and by participation in water industry research initiatives, most notably through membership of the UK Water Industry Research partnership (UKWIR) which manages and coordinates the common research interests of UK water companies.

We encourage a pipeline of innovative solutions throughout the year, and showcase innovation at our annual Innovation Conference where we launched our Innovation Strategy for AMP7.

Energy use and greenhouse gas emissions

Net carbon emissions 2018-19	-	59,845
Generated from renewables	-	85 GWh

Renewables made up 17% of our electricity and gas consumption in 2018-19

Since 2010 we have reduced our carbon emissions by 79%. We monitor and measure our carbon footprint by using the UK water industry carbon accounting tool, which follows the 2013 UK Government Environmental Reporting Guidance and the GHG Protocol Corporate Accounting and Reporting Standard (2015).

To tackle climate change Welsh Water invests in renewable energy generator technologies (combined heat and power running on biomethane derived from sewage sludge, bio-methane injection into the gas grid, hydro turbines, onshore wind turbines and solar photovoltaics) to supply by 2020, 25% of the energy we need to provide services to our customers. The remaining ~75% is procured from our electricity supplier Ørsted, who provide Welsh Water with 100% renewable energy, which is REGO (Renewable Energy Guarantee of Origin) backed.

Directors' report

Corporate social responsibility

As one of the biggest employers in Wales and serving 3.1m people across our supply area in Wales and England, we are very aware of our responsibility to our employees and to the wider community.

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

By engaging with diverse talent, Welsh Water is able to improve access to skills that are in short supply, creating a larger talent pool, and also enhance the Employer of Choice brand. By working to develop a workforce representative of the customers served, Welsh Water will build customer trust, benefitting not only recruitment, but wider business aims also.

Working with charities and organisations such as WISE and Stonewall, Welsh Water is able to attract individuals who may otherwise feel that there are significant barriers to employment.

Welsh Water's commitment to a gender diverse workforce is supported by our work with WISE, a campaign for gender balance in science, technology and engineering. Following their ten step model means making the right cultural changes that can in turn have a significant impact on attraction, recruitment and retention.

Our work with EU Skills on the Diversity and Inclusion Network Forum means that we are able to work with other companies in diversifying the workforce and ensuring that as a sector we are fair and equal, whilst also retaining this talent to ensure a sustainable and resilient future for the essential services delivered by the sector. Also, as part of our membership of the Talent Source Network, Welsh Water is involved in a number of diverse job boards including DESIblitz (a British Asian web magazine). We have also signed up to Disability Confident and the Business Disability Forum to promote Welsh Water as an employer to individuals with disabilities. This also reinforces that we as an employer are committed to employing people with the right skills and attributes regardless of their individual challenges. To develop our commitment further we have become a Defence Recognised Employer, removing the barriers to employment for ex-military and reservists working in Welsh Water by signing the Armed Forces Covenant.

To improve our ability to attract diverse employees we intend to:

- engage with organisations with links to related talent pools;
- seek additional information from our current workforce so that we can track future improvements; and
- change the way we recruit to reach out to different community leaders and gain their support. Establish relationships with key thirdparty organisations who can help us establish our credentials as an employer committed to improving diversity.

Our International Women's Day event in 2019 featured Cerys Furlong, Chief Executive of Chwarae Teg, the gender equality charity in Wales, who presented on the challenges she has faced in her career. A similar STEM (science, technology, engineering and mathematics) related event is also planned to be held in Llandudno in June 2019.

Supplier payment policy

Our review of our creditor payment performance confirms that Welsh Water is among the best companies for prompt payment to its suppliers – with 90% of suppliers paid within 30 days of invoice receipt. In May 2019 we signed up to the UK Government's Prompt Payment Code and have exceeded its requirement to pay 95% of suppliers within 60 days.

Political donations

It is Board policy not to make donations to political parties or to incur political expenditure. During the year a payment to Citizens Advice (£45,000) to fund a debt adviser providing advice to our customers in Rhondda Cynon Taff, and to Step Change (£18,270) to support the work the charity does in providing debt advice to our customers. We are disclosing these payments as both organisations also campaign for government policy change, including on debt issues, however none of the funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require 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.

Directors' report (continued)

Dividend

No dividend was declared or paid in the year (2018: none).

Welsh Language Scheme

We have adopted the principle that in the context of conducting our public business in Wales we will treat the Welsh and English languages on a basis of equality. We welcome dealing with customers and other stakeholders in Welsh or English and aim to provide an effective standard of service in both languages. We also encourage the use of Welsh amongst our colleagues and run Welsh language lessons to support those wishing to learn or develop their proficiency in the language.

Our Welsh Language Scheme is an approved scheme under the provisions of the Welsh Language Act 1993. We are continuing to work closely with the Welsh Language Commissioner's office to prepare for the implementation of the provisions of the Welsh Language (Wales) 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 2019 and will also be available on request from the Company Secretary.

Group structure

These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2019. 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.

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 2019 annual general meeting.

By order of the Board

N Williams
Company Secretary

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

6 June 2019

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare 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 year. 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 2019 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 2019 and of its 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 group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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.

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

Directors' responsibilities

As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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

6 June 2019

Income statement for the year ended 31 March 2019

		2019	2018
Continuing activities	Note	£m	£m
Revenue	2	779.8	756.7
Operating costs:			
- Operational expenditure	3	(333.5)	(317.8)
- Infrastructure renewals expenditure	3	(83.9)	(86.0)
- Depreciation and amortisation	3	(291.8)	(275.8)
		<u>(709.2)</u>	<u>(679.6)</u>
Operating profit		<u>70.6</u>	<u>77.1</u>
Profit on disposal of property, plant and equipment		0.2	1.8
		<u>70.8</u>	<u>78.9</u>
Financial income	4a	4.9	3.9
Financial expenses	4a	(173.4)	(181.0)
Fair value (losses)/gains on derivative financial instruments	4b	(17.4)	52.3
		<u>(185.9)</u>	<u>(124.8)</u>
Loss before taxation		<u>(115.1)</u>	<u>(45.9)</u>
Taxation	5	17.8	6.5
Loss for the year		<u>(97.3)</u>	<u>(39.4)</u>

The notes on pages 15 to 44 form part of these financial statements.

Statement of comprehensive income for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Loss for the year		(97.3)	(39.4)
Items that will not be reclassified to profit or loss			
Actuarial (loss)/gain recognised in the pension scheme	21	(19.9)	12.2
Related deferred tax	6	2.6	(2.8)
Revaluation of property, plant and equipment	7	132.2	158.1
Related deferred tax	6	(22.5)	(26.9)
		92.4	140.6
Total comprehensive (loss)/income for the year		(4.9)	101.2

Balance sheet as at 31 March 2019

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Property, plant and equipment	8	5,522.0	5,296.1
Intangible assets	9	174.8	146.0
Other financial assets:			
- derivative financial instruments	14	3.8	1.9
		<u>5,700.6</u>	<u>5,444.0</u>
Current assets			
Inventories		3.9	3.2
Trade and other receivables	10	572.4	576.2
Cash and cash equivalents	11	490.3	274.8
Other financial assets:			
- derivative financial instruments	14	1.1	2.9
		<u>1,067.7</u>	<u>857.1</u>
Total assets		<u>6,768.3</u>	<u>6,301.1</u>
Liabilities			
Current liabilities			
Trade and other payables	12	(559.7)	(567.5)
Provisions	16	(4.1)	(2.4)
Other financial liabilities:			
- borrowings	13	(205.2)	(40.9)
- derivative financial instruments	14	(26.9)	(28.2)
		<u>(795.9)</u>	<u>(639.0)</u>
Net current assets		271.8	218.1
Non-current liabilities			
Trade and other payables	12	(264.7)	(234.0)
Employee benefits	21	(96.2)	(80.4)
Provisions	16	(3.4)	(7.5)
Other financial liabilities:			
- borrowings	13	(3,608.1)	(3,356.2)
- derivative financial instruments	14	(261.8)	(242.9)
Deferred tax	6	(429.6)	(427.6)
		<u>(4,663.8)</u>	<u>(4,348.6)</u>
Total liabilities		<u>(5,459.7)</u>	<u>(4,987.6)</u>
Net assets		<u>1,308.6</u>	<u>1,313.5</u>
Equity			
Share capital	17	309.9	309.9
Capital redemption reserve		166.2	166.2
Revaluation reserve	7	764.5	717.8
Retained earnings		68.0	119.6
Total equity		<u>1,308.6</u>	<u>1,313.5</u>

The financial statements on pages 10 to 44 were approved by the Board of Directors on 6 June 2019 and were signed on its behalf by:

P Bridgewater
Finance and Commercial Director

Registered No 2366777

Statement of changes in equity for the year ended 31 March 2019

	Share capital £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
At 1 April 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
Transfer to retained earnings	-	-	(57.5)	57.5	-
At 31 March 2018	309.9	166.2	717.8	119.6	1,313.5
Loss for the year	-	-	-	(97.3)	(97.3)
Actuarial loss net of tax	-	-	-	(17.3)	(17.3)
Revaluation net of tax	-	-	109.7	-	109.7
Transfer to retained earnings	-	-	(63.0)	63.0	-
At 31 March 2019	309.9	166.2	764.5	68.0	1,308.6

Cash flow statement for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash flow from operating activities			
Cash generated from operations	18	361.4	348.7
Interest paid		(132.5)	(134.6)
Income tax received		0.4	0.3
Net cash flow from operating activities		229.3	214.4
Cash flow from investing activities			
Interest received		4.8	3.9
Purchase of property, plant and equipment		(354.5)	(302.1)
Purchase of intangible assets		(48.5)	(48.2)
Grants and contributions received		19.3	11.4
Proceeds from sale of property, plant and equipment		1.0	2.5
Net cash flow from investing activities		(377.9)	(332.5)
Net cash flow before financing activities		(148.6)	(118.1)
Cash flow from financing activities			
Repayment of borrowings		-	(0.2)
Increase in borrowings		136.6	-
Bond issue costs		-	(0.5)
Intercompany loan received		-	297.0
Long-term loan received		250.0	60.0
Loan repaid to group undertaking		(21.6)	(21.6)
Finance lease principal payments		(0.9)	(9.8)
Net cash flow from financing activities		364.1	324.9
Increase in cash and cash equivalents	19b	215.5	206.8
Cash and cash equivalents at 1 April		274.8	68.0
Cash and cash equivalents at 31 March	11	490.3	274.8

Notes to the financial statements

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2019

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 Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union and the parts of the Companies Act 2006 applicable to reporting under IFRS (Adopted IFRSs). 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. The presentational currency of these accounts is GBP and all balances are shown rounded in £m.

Going concern

As described in the financing risk management section the Company meets its day-to-day working capital requirements 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 foreseeable 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 applied in these financial statements.

- IFRS 9 Financial Instruments

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 assessed the impact of adoption and recognises that additional disclosures will be required in the full year report and accounts to show historical experience and the extent of forward-looking factors. While an "expected loss" impairment model is in line with the approach historically taken by the Company towards its provisioning against trade receivables, losses in relation to the measured income accrual were recognised previously only once billed.

The Company has used its existing provisioning methodology for measured debt in determining an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 31 March 2019 is £3.8m (2018: £3.9m), being a revenue provision of 5% against a gross balance of £76.9m (2018: £78.3m). The provision will be reassessed for adequacy at each balance sheet date, but the Directors do not anticipate any material fluctuations. There is no requirement to restate comparative information for balances affected by the adoption of IFRS 9 in the period of transition, the impact of which would not in any case be material to the financial statements.

- IFRS 15 Revenue from Contracts with Customers

The standard deals with revenue recognition and established 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 of 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 recognises that contracts with customers are, in a majority of cases, governed by legislative requirements rather than discrete commercial arrangements. As a result the application of judgement is important in determining the most appropriate treatment of certain income streams. The key consideration in respect of the Company's activities is where revenues from bundled goods and services require separation, which may result in deferring or recognising revenue immediately.

Notes to the financial statements (continued)

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

Accounting policies for the year ended 31 March 2019 (continued)

The application of IFRS 15 has not resulted in any change to the manner in which we recognise revenues from our core water and sewerage supply services, which constitute more than 95% of total income, since there is a clear performance obligation satisfied over a measured period of time; however, there are some peripheral income streams which required more in-depth consideration. All water companies have a legal obligation to allow third parties to establish an authorised connection to their networks and a number of activities may be necessary in order to achieve this, giving rise to the following transactions and accounting treatments under IFRS 15:

- *Connection charges*: these are amounts received from developers for connection to the network which we recognise as income on delivery of that performance obligation.
- *Infrastructure charges and requisitions*: third party contributions towards the Company's obligation to ensure future service provision to the connection or mains over its life; we estimate that an average connection lasts for 80 years and defer the release of charges over that period.
- *Asset adoptions*: usually sewers adopted at no cost, whereby the receipt of the asset is out of scope of IFRS 15 and should therefore be recognised at fair value (with deferred or related non-cash income).
- *Diversions*: payment in return for moving a water or sewer main to accommodate other infrastructure changes. The performance obligation is to move the main, with no additional asset creation, therefore revenue is recognised immediately.

There has been no material change to our accounting treatment for any of these income streams following the adoption of IFRS 15.

IFRS 16 Leases, which is effective for accounting periods beginning on or after 1 January 2019, will revise the treatment of leases in financial statements and largely eliminates the accounting distinction between operating and finance leases. The Directors have assessed the impact of adopting IFRS 16 and expect it to result in the recognition of additional tangible fixed assets as a value of around £1m, which will attract a depreciation charge rather than the current treatment of leases payments as an operating cost.

At the date of approval of these financial statements, the following Standards, Interpretations and Amendments, which have not been applied in these financial statements, were in issue but not yet effective:

Standards

- IFRS 17 – Insurance Contracts Interpretations
- IFRIC 23 – Uncertainty over Income Tax Treatments Amendments
- IAS 1 – Presentation of Financial Statements
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 12 - Income Taxes
- IAS 19 – Employee Benefits
- IAS 23 – Borrowing Costs
- IAS 28 – Investments in Associates and Joint Ventures
- IFRS 3 – Business Combinations
- IFRS 11 – Joint Arrangements

The Directors anticipate that the adoption of these Standards, Interpretations and Amendments in future periods will have no material impact on the financial statements of the Company.

Revenue recognition

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

Notes to the financial statements (continued)

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

Accounting policies for the year ended 31 March 2019 (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 2019 the total value of tangible and intangible fixed assets has been revalued to the Company's 'shadow RCV', being the 31 March 2019 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.

Other assets

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

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

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

Notes to the financial statements (continued)

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

Accounting policies for the year ended 31 March 2019 (continued)

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 "other financial liabilities – borrowings". Leasing payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor with the finance charge being recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

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

Grants and customer contributions

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

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

Capital expenditure programme incentive payments

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

Trade receivables

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

Notes to the financial statements (continued)

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

Accounting policies for the year ended 31 March 2019 (continued)

Cash and cash equivalents

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

Pension costs

i) Defined benefit scheme

The Company operates a defined benefit scheme, the DCWW Pension Scheme, which was closed to future accrual from 1 April 2017 for all members except for 18 ESPS section members. 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 charged 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 contribution scheme, the DCWW Group Personal Pension Plan, which all employees are eligible to join. Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

Other 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 2019, none of the Company's derivatives qualified for hedge accounting under IFRS 9 (2018: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Notes to the financial statements (continued)

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

Accounting policies for the year ended 31 March 2019 (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.

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 conforming with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 22.

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.

Notes to the financial statements (continued)

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

Financing risk management (continued)

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 environment 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 £75m (2018: £73m).

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 £3,715m as at 31 March 2019 (2018: £3,309m), none related to floating rate debt (2018: none). The Company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2019, 100% (2018: 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 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 £284m in the balance sheet at 31 March 2019 (2018: £266m) 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 £3,715m (2018: £3,309m) can fall due in any 24 month period.

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 2019, the Group had committed undrawn borrowing facilities of £170m (2018: £420m) and cash and cash equivalents (excluding debt service payments account) of £348m (2018: £282m).

Notes to the financial statements (continued)

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

Financing risk management (continued)

Liquidity risk (continued)

The undrawn facilities comprise £170 million revolving credit facilities which are available. There is also a £10m overdraft facility renewable on an annual basis.

On 17 December 2018, a loan for £250 million with the European investment Bank was fully drawn by the Company.

As at 31 March 2019, a fellow subsidiary, Dŵr Cymru (Financing) Limited, also has a special liquidity facility of £135 million (2018: £135 million), which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through the operating cashflow of the Group, in the event of a standstill being declared by the security trustee. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. Up until 2 April 2019, the facility was provided by four banks and was renewable on an annual basis. From 3 April 2019 the facility has been provided by an insurance provider and is renewable on a rolling five year evergreen 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 Company operates, capital is monitored on the basis of the gearing ratio. This is calculated as net debt (as defined in borrowing covenants) as a proportion of the Company's Regulatory Capital Value (RCV) as linked to movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2019 gearing was 58% (2018: 57%).

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

Critical accounting estimates and judgements

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The probability of failing to recover a debt is based on expected credit loss, 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 5%, the provision for impairment would increase or decrease by £3.5m (2018: £4.5m).

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 2019 would increase or reduce by £9.0m (2018: £8.9m). If the schemes assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. With the exception of cash, assets consist of pooled investment funds, alternative strategy funds and property funds which are not quoted on an active market. Of total assets amounting to £397m (2018: £398m), assets with a fair value of £149m (2018: £145m) are Level 3 financial assets; these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. A 5% movement in the fair value of these Level 3 financial assets would increase or decrease the overall carrying value of the pension liability by £7.5m (2018: £7.3m). See also Note 21.

Notes to the financial statements (continued)

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

Critical accounting estimates and judgements (continued)

Fair Value Estimation

In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Company 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 treasury derivatives are categorised as Level 2. Trading derivatives, relating to power price hedges, are categorised as Level 2 where marked-to-market valuations are received for these trades. Where marked-to-market valuations are not received the fair values are estimated rather than observable, and are therefore categorised as Level 3. At 31 March 2019 the fair values of derivatives were as follows:

Level 2:

- **Assets:** trading derivatives £2.5m, Treasury derivatives £nil. (March 2018: Trading derivatives £4.8m, Treasury derivatives £nil).
- **Liabilities:** trading derivatives £0.2m, Treasury derivatives £287.9m (March 2018: Trading derivatives 0.3m, Treasury derivatives £270.8m).

Level 3:

- **Assets:** trading derivatives £2.4m, Treasury derivatives £nil. (March 2018: Trading derivatives £nil, Treasury derivatives £nil).
- **Liabilities:** trading derivatives £0.6m, Treasury derivatives £nil (March 2018: Trading derivatives £nil, Treasury derivatives £nil).

Trading derivatives relate to power hedges. Treasury derivatives relate to interest rate swap contracts. All derivatives are recorded on the balance sheet at fair value.

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.

Level 3 debt instruments 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. Level 3 debt instruments are valued by comparing valuations from Level 2 trades for the same periods, with the valuations from observable trades being inflated or deflated to allow for any fixed price variations.

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.

Notes to the financial statements (continued)

2. Segmental information

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

	2019	2018
	£m	£m
Regulated revenue		
Water	320.9	304.8
Sewerage	399.9	389.4
Retail	52.7	53.1
Total regulated revenue	773.5	747.3
Other (non-regulated)	6.3	9.4
Total revenue	779.8	756.7

Regulated revenue relates to the provision of water, sewerage and related retail services operating under Dŵr Cymru Cyfyngedig's licence as part of the water industry and England and Wales, regulated by The Office of Water Trading (OfWat).

Other (non-regulated) revenue relates to income streams which are not subject to Ofwat's price control; these principally comprise activities which are peripheral and/or complementary to the Company's core water and sewerage business.

Notes to the financial statements (continued)

3. Operating profit

The following items have been included in arriving at the operating profit:

	2019 £m	2018 £m
Operating expenditure		
Power	46.3	42.7
Chemicals	11.2	9.6
Materials and equipment	6.0	5.5
Vehicles and plant	8.2	8.5
Office expenses	10.0	13.8
Property costs	3.9	4.0
Insurance	4.1	4.1
Sewerage contractors	23.8	19.8
Laboratories and analytical services	0.9	0.8
Collection commissions	3.4	4.2
IT contracts	10.0	11.1
Bought-in services and other costs	46.3	33.0
	<u>174.1</u>	<u>157.1</u>
Employee costs (note 20)	159.4	151.1
Staff costs capitalised	(60.3)	(53.8)
	<u>99.1</u>	<u>97.3</u>
Research and development credit	(0.5)	(1.4)
Trade receivables impairment	21.0	22.1
Rates	24.0	26.9
Natural Resources Wales/Environment Agency charges	15.4	15.3
Fees payable to auditors	0.4	0.5
Total operational expenditure	<u>333.5</u>	<u>317.8</u>
Infrastructure renewals expenditure	83.9	86.0
Depreciation and amortisation		
- Depreciation of property, plant and equipment	277.9	259.3
- Release of deferred income	(5.8)	(5.2)
- Amortisation of intangible assets	19.7	21.7
Total depreciation and amortisation	<u>291.8</u>	<u>275.8</u>
Total operating costs	<u>709.2</u>	<u>679.6</u>

Notes to the financial statements (continued)

3. Operating profit (continued)

Services provided by the Company's auditors

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

	2019 £000	2018 £000
Audit fees		
Audit of parent company and consolidated financial statements	20	20
Audit of subsidiary companies	105	139
Total audit fees	125	159
Audit-related assurance services		
Review of interim financial statements	25	22
Regulatory audit services pursuant to legislation	51	54
Regulatory price review assurance work	41	-
Scheme of charges assurance work	-	26
Investor report reviews	8	6
Environment Agency levy assurance work	3	3
Bond issuance assurance work	-	38
Total audit and audit-related assurance services	253	308
Other services		
Tax iXBRL document tagging	7	-
Pensions advice	71	80
Assurance on commercial activities	-	58
Direct Procurement for Customers project assessment	72	-
Legal services advice including payroll, reward and data analytics services regarding Gender Pay Gap reporting and a voluntary equal pay audit	-	65
Total other services	150	203
Total cost of services provided by the Company's auditors	403	511

Regulatory audit services include audit work in respect of regulatory requirements: the Annual Performance Report and Scheme of Charges.

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

Notes to the financial statements (continued)

4. Net financial expenses

a) Financial expenses before fair value (losses)/gains on derivative financial instruments

	2019 £m	2018 £m
Financial income	4.9	3.9
Interest payable on loans	(153.8)	(153.8)
Interest payable on finance leases (including swaps to RPI)	(17.6)	(20.8)
Other interest payable and financial costs	(15.9)	(20.3)
Net interest charge on pension scheme liabilities	(2.0)	(2.5)
Capitalisation of borrowing costs under IAS 23 (2019: 5.1%; 2018: 6.1%)	15.9	16.4
Financial expenses	(173.4)	(181.0)
Net financial expenses before fair value adjustments	(168.5)	(177.1)

Included within financial expenses are amounts payable to group undertakings of £144.8m (2018: £144.5m).

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

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

	2019 £m	2018 £m
Fair value (losses)/gains on interest rate swaps	(1.3)	3.6
Fair value (losses)/ gains on index-linked swaps	(15.6)	43.4
Fair value (losses)/gains on trading derivatives	(0.5)	5.3
Fair value (losses)/gains on derivative financial instruments	(17.4)	52.3

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

	2019 £m	2018 £m
Current tax		
- Current tax on loss for the year	0.5	0.4
- Current tax on research and development credit	(0.1)	(0.3)
- Adjustment in respect of prior years	(0.5)	0.9
Total current tax	(0.1)	1.0
Deferred tax		
- Origination and reversal of timing differences	17.3	6.2
- Adjustment in respect of prior years	0.6	(0.7)
Total deferred tax (note 6)	17.9	5.5
Taxation	17.8	6.5

The current tax credit of £0.5m (2018: £0.4m) has arisen from the surrender of tax losses relating to energy efficient capital expenditure of £0.3m and group relief of £0.2m. Operating expenditure includes a tax credit of £0.5m (2018: £1.4m) relating to R&D expenditure. The tax credit is taxable and the corresponding charge of £0.1m (2018: £0.3m) is shown above. Adjustments in respect of prior years relate to revisions to deferred tax balances in respect of capital expenditure, and adjustments to tax credits for energy efficient capital expenditure and the remediation of contaminated land.

Tax trading losses carried forward as at 31 March 2019 are £nil (2018: nil) as a result of disclaiming capital allowances.

Notes to the financial statements (continued)

5. Taxation (continued)

The rate used to calculate deferred taxes is 17% (2018: 17%). The Government has not announced any future reductions to corporation tax rates.

The effective rate of tax for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
Loss before tax	(115.1)	(45.9)
Loss before tax multiplied by the corporation tax rate in the UK of 19% (2018: 19%)	21.9	8.7
Effect of:		
Adjustments in respect of prior years	0.1	0.2
Other permanent differences	(2.9)	(2.5)
Effect of pension payments in excess of service charge	0.8	0.7
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	(2.1)	(0.6)
Total taxation	17.8	6.5

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2018: 17%).

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

	2019 £m	2018 £m
At 1 April	427.6	403.4
Credit to income statement	(17.9)	(5.5)
(Credit)/charge to statement of comprehensive income	(2.6)	2.8
Charge to revaluation reserve	22.5	26.9
At 31 March	429.6	427.6

Analysis of amounts of deferred tax charged to the statement of comprehensive income and revaluation reserve:

	2019 £m	2018 £m
Defined benefit pension scheme	(3.4)	2.1
Reallocation of tax from income statement – pension payment in excess of service charge	0.8	0.7
(Credited)/charged to the Statement of Comprehensive Income	(2.6)	2.8
Revaluation of fixed assets using a tax rate of 17% (2018: 17%)	22.5	26.9
Charged to the Revaluation Reserve	22.5	26.9
	2019 £m	2018 £m
Effect of:		
Tax allowances in excess of depreciation	248.6	250.7
Deferred tax on revaluation of fixed assets	243.7	234.1
Capital gains rolled over	2.7	2.7
Deferred tax liability	495.0	487.5
Deferred tax on losses on derivative financial instruments	(48.3)	(45.2)
Pensions	(15.5)	(12.9)
Other tax differences	(1.6)	(1.8)
Net deferred tax	429.6	427.6

Notes to the financial statements (continued)

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 years.

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 2019 the total value of tangible and intangible fixed assets has been revalued to the company's 'shadow RCV', being the 31 March 2019 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.

	2019	2018
	£m	£m
Revaluation reserve at 1 April	717.8	644.1
Revaluation of assets to RCV	132.2	158.1
Depreciation charge on revalued assets	(75.9)	(69.3)
	56.3	88.8
Deferred tax on revaluation	(22.5)	(26.9)
Deferred tax on depreciation charge	12.9	11.8
	(9.6)	(15.1)
Revaluation reserve at 31 March	764.5	717.8

Notes to the financial statements (continued)

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 2018	41.7	2,362.3	4,089.0	263.2	6,756.2
Revaluation	-	4.1	-	-	4.1
Additions net of grants and contributions	-	124.7	238.6	9.0	372.3
Disposal	-	-	(3.6)	-	(3.6)
At 31 March 2019	41.7	2,491.1	4,324.0	272.2	7,129.0
Accumulated depreciation					
At 1 April 2018	21.3	-	1,177.0	261.8	1,460.1
Revaluation	-	(54.0)	(74.1)	-	(128.1)
Charge for the year	0.8	54.0	215.8	7.3	277.9
Released on disposal	-	-	(2.9)	-	(2.9)
At 31 March 2019	22.1	-	1,315.8	269.1	1,607.0
Net book value					
At 31 March 2019 (see note 7)	19.6	2,491.1	3,008.2	3.1	5,522.0
At 31 March 2019 (historic cost)	19.6	1,815.3	2,250.5	3.4	4,088.8

The net book value of property, plant and equipment includes £285.8m in respect of assets in the course of construction (2018: £278.5m) and £67.4m of borrowing costs capitalised in accordance with IAS 23 (2018: £55.4m), of which £13.9m were additions in the year (2018: £14.1m).

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

	Infrastructure assets £m	Operational structures £m	Total £m
At 31 March 2019			
Valuation	662.9	117.7	780.6
Accumulated depreciation	-	(81.7)	(81.7)
Net book value	662.9	36.0	698.9

Notes to the financial statements (continued)

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 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

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

	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

9. Intangible assets

Current year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2018	323.0	(177.0)	146.0
Additions/(charge for the year)	48.5	(19.7)	28.8
At 31 March 2019	371.5	(196.7)	174.8
Prior 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

Notes to the financial statements (continued)

9. Intangible assets(continued)

Intangible fixed assets comprise computer software and related system developments.

The net book value of intangible assets includes £24.3m in respect of assets in the course of construction (2018: £36.7m).

The net book value of intangible assets includes £7.1m of borrowing costs capitalised in accordance with IAS 23 (2018: 5.6m) of which £2.0m were additions in the year (2018: £2.3m).

10. Trade and other receivables

	2019 £m	2018 £m
Current		
Trade receivables	560.0	556.7
Less provision for impairment of receivables	<u>(78.7)</u>	<u>(83.8)</u>
Trade receivables - net	481.3	472.9
Prepayments and accrued income	80.0	87.2
Other receivables	<u>11.1</u>	<u>16.1</u>
Total trade and other receivables	<u>572.4</u>	<u>576.2</u>

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

As at 31 March 2019, based on a review of historical collection rates it was considered that £78.7m (2018: £83.8m) of trade receivables were impaired and these have therefore been provided for. The impaired receivables relate mainly to the measured and unmeasured supply of water and sewerage services. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of these receivables was as follows:

Current year	Total	Provided	Net
Trade receivables	£m	for £m	£m
Billings in advance	367.7	-	367.7
Under one month	27.2	(2.3)	24.9
Between one and six months	36.8	(2.7)	34.1
Between six months and one year	28.5	(2.6)	25.9
Between one and two years	44.0	(30.5)	13.5
Between two and three years	32.5	(23.3)	9.2
Over three years	<u>23.3</u>	<u>(17.3)</u>	<u>6.0</u>
	<u>560.0</u>	<u>(78.7)</u>	<u>481.3</u>
Prior year			
Trade receivables	Total	Provided	Net
Trade receivables	£m	for £m	£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	<u>26.1</u>	<u>(20.6)</u>	<u>5.5</u>
	<u>556.7</u>	<u>(83.8)</u>	<u>472.9</u>

Notes to the financial statements (continued)

10. Trade and other receivables (continued)

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

	2019 £m	2018 £m
At 1 April	83.8	95.8
Charge to income statement	19.9	20.8
Receivables written off during the year as uncollectable	<u>(25.0)</u>	<u>(32.8)</u>
At 31 March	<u>78.7</u>	<u>83.8</u>

During the year the Company has written off £25.0m of debt which had been provided for in full (2018: £32.8m).

The total charge to the income statement of £21.0m (2018: £22.1m) includes the bad debt element of collection charges under arrangements with third parties who collect debt on the Company's behalf (2019: £1.1m, 2018: £1.3m).

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

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

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

The tables below illustrate the impact of applying the "expected loss" model in accordance with IFRS 9. Debt provisioning is based on historical experience as adjusted for certain forward-looking factors, including the impact of charging orders which improve the underlying collectability of debt. The Company holds around 6,000 charging orders as collateral against £11m of debt (2018: 4,100 orders against £9m of debt).

Current year	Historical default rates %	Forward- looking adjustment %	Adjustment total %	Historical impairment £m	Forward- looking adjustment £m	Total impairment £m
Billed in advance	-	-	-	-	-	-
< 1 month	9.9%	(1.5%)	8.4%	2.7	(0.4)	2.3
1 > 6 months	8.8%	(1.5%)	7.3%	3.2	(0.5)	2.7
6 months > 1 year	10.9%	(1.9%)	9.0%	3.1	(0.5)	2.6
1 > 2 years	77.2%	(8.2%)	69.0%	34.0	(3.5)	30.5
2 > 3 years	77.8%	(6.1%)	71.7%	25.3	(2.0)	23.3
> 3 years	80.9%	(6.6%)	74.3%	18.8	(1.5)	17.3
				<u>87.1</u>	<u>(8.4)</u>	<u>78.7</u>

Prior year	Historical default rates %	Forward- looking adjustment %	Adjustment total %	Historical impairment £m	Forward- looking adjustment £m	Total impairment £m
Billed in advance	-	-	-	-	-	-
< 1 month	10.7%	(0.4%)	10.3%	2.8	(0.1)	2.7
1 > 6 months	9.5%	(0.3%)	9.2%	3.4	(0.1)	3.3
6 months > 1 year	11.9%	-	11.9%	3.2	-	3.2
1 > 2 years	73.8%	(2.1%)	71.7%	31.8	(0.9)	30.9
2 > 3 years	77.3%	(2.3%)	75.0%	23.9	(0.8)	23.1
> 3 years	81.5%	(3.1%)	78.4%	21.4	(0.8)	20.6
				<u>86.5</u>	<u>(2.7)</u>	<u>83.8</u>

Notes to the financial statements (continued)

11. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	142.0	7.4
Short-term deposits	348.3	267.4
Cash and cash equivalents	490.3	274.8

The effective interest rate on short-term deposits as at 31 March 2019 was 0.8% (2018: 0.5%) and these deposits had an average maturity of 22 days (2018: 24 days). All cash and cash equivalents were held in sterling .

12. Trade and other payables

	2019 £m	2018 £m
Current		
Trade payables	56.8	45.1
Capital payables	44.6	60.3
Amounts due to group undertakings	2.3	4.1
Social security and other taxes	5.2	3.4
Accruals and deferred income	450.8	451.6
Corporation tax	-	3.0
	559.7	567.5
Non-current		
Deferred income	264.7	234.0

13. Other financial liabilities – borrowings

	2019 £m	2018 £m
Current		
Overdrawn funds	142.4	5.7
Interest accruals	8.9	0.3
Loans due to group undertakings	29.3	22.8
Other unsecured loans	0.1	0.1
Finance lease obligations	24.5	12.0
	205.2	40.9
Non-current		
Interest accruals	42.1	48.8
Loans due to group undertakings	2,592.0	2,576.4
Term loan	563.1	306.6
Other unsecured loans	0.4	0.5
Finance lease obligations	410.5	423.9
	3,608.1	3,356.2

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.

Notes to the financial statements (continued)

13. Other financial liabilities – borrowings (continued)

The Group's Class A Bonds of £1,026m (2018: £1,008m) benefit from a guarantee from Assured Guaranty (Europe) Plc. Assured Guaranty's credit rating is graded as A2/AA/NR by Moody's, Standard and Poor's and Fitch respectively. The credit rating of the Class A bonds defaults to the higher of the guarantee or underlying rating of these bonds i.e. A2/AA/A neg from Moody's, Standard and Poor's and Fitch respectively. The underlying rating (A2 neg/A neg/A neg) reflects the standalone credit quality of these bonds without the benefit of the guarantee from Assured Guaranty, and is the same as the credit ratings of the Group's Class B bonds of £1,371m (2018: £1,350m).

14. Other financial assets and liabilities - derivative financial instruments

Derivative financial instruments are held for economic hedging purposes. However, they do not qualify as accounting hedges and movements in their fair value are taken to the Income Statement (see note 4b).

2019	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(16.8)
Interest rate swaps (intercompany)	-	(9.3)
Power hedging swaps	1.1	(0.8)
	<u>1.1</u>	<u>(26.9)</u>
Non-current		
Index-linked swaps	-	(179.8)
Interest rate swaps (intercompany)	-	(82.0)
Power hedging swaps	3.8	-
	<u>3.8</u>	<u>(261.8)</u>
Total	<u>4.9</u>	<u>(288.7)</u>
2018		
Current		
Index-linked swaps	-	(19.2)
Interest rate swaps (intercompany)	-	(9.0)
Power hedging swaps	2.9	-
	<u>2.9</u>	<u>(28.2)</u>
Non-current		
Index-linked swaps	-	(161.7)
Interest rate swaps (intercompany)	-	(80.9)
Power hedging swaps	1.9	(0.3)
	<u>1.9</u>	<u>(242.9)</u>
Total	<u>4.8</u>	<u>(271.1)</u>

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 IFRS 9; the Company has no such embedded derivatives.

Interest Rate Swaps

At 31 March 2019 an interest rate swap fixes the interest rate on £192 million (2018: £192 million) of floating liabilities held by Dŵr Cymru (Financing) Limited and on-lent to the company. The maturity date of the swap is 31 March 2031 and the quarterly fixed interest rate is 5.67%.

Notes to the financial statements (continued)

14. Other financial assets and liabilities - derivative financial instruments (continued)

Index-Linked Swaps

Finance Lease Swaps

The index-linked swaps have the effect of index-linking the interest rate on £380m (2018: £381m) of finance lease liabilities by reference to the Retail Prices Index (RPI).

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2019 was £397m (2018: £399m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2019. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

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

- Notional amount: 397 amortising (2018: £399m amortising)
- Average swap maturity: 17 years (2018: 18 years)
- Average interest rate: 1.43% fixed plus RPI (2018: 1.40% fixed plus RPI)

15. Financing risk management

The policies of the Company in respect of financing risk management are included in the accounting policies note on page 20. 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:

	2019	2018
Assets:		
Cash and cash equivalents	0.8%	0.5%
Liabilities:		
Intercompany loans	3.9%	3.9%
Term loans	1.0%	0.28%
Other unsecured loans	4.3%	5.0%
Finance lease obligations	0.7%	0.6%

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

2019	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	490.3	-	-	-	490.3
Trade and other receivables	572.4	-	-	-	572.4
	1,062.7	-	-	-	1,062.7
Liabilities:					
Cash and cash equivalents	142.4	-	-	-	142.4
Intercompany loan	29.3	354.3	65.2	2,172.5	2,621.3
Term loans	-	19.3	96.9	446.9	563.1
Other unsecured loans	0.1	0.1	0.1	0.2	0.5
Finance lease obligations	24.5	15.1	18.6	376.8	435.0
Trade and other payables	559.7	5.9	17.7	241.1	824.4
Future interest payable	102.7	102.4	239.0	670.1	1,114.2
	858.7	497.1	437.5	3,907.6	5,700.9

Notes to the financial statements (continued)

15. Financing risk management (continued)

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
	<u>851.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>851.0</u>
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
	<u>716.6</u>	<u>162.1</u>	<u>871.8</u>	<u>3,988.2</u>	<u>5,738.7</u>

The minimum payments under finance leases fall due as follows:

	2019 £m	2018 £m
Gross finance lease liabilities		
Within one year	32.8	15.9
Between two and five years	69.3	82.1
After five years	429.3	438.3
	<u>531.4</u>	<u>536.3</u>
Future interest	(96.4)	(100.4)
Net finance lease liabilities	<u>435.0</u>	<u>435.9</u>
Net finance lease liabilities are repayable as follows:		
Within one year (note 13)	<u>24.5</u>	<u>12.0</u>
Between two and five years	33.7	46.3
After five years	376.8	377.6
Total over one year (note 13)	<u>410.5</u>	<u>423.9</u>

c) Fair values

The fair values of the Company's derivative financial instruments are set out in note 14. The fair value of the intercompany loan is £3,423.7m (2018: £3,374.3m). 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 2019, there were committed undrawn facilities for operating cash within the Group of £170m (2018: £420m) in respect of which, all conditions precedents have been met at that date. The undrawn facilities of £170m of revolving credit facilities are available until November 2020.

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

As at 31 March 2019, a fellow subsidiary, Dŵr Cymru (Financing) Limited, also has a special liquidity facility of £135m (2018: £135m), which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through the operating cashflow of the Group, in the event of a standstill being declared by the security trustee. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. Up until 2 April 2019, the facility was a 364 day bank facility split equally between four providers. From 3 April 2019 the facility has been replaced with a five-year evergreen facility provided by an insurer. The facility is renewable on an annual basis.

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

Notes to the financial statements (continued)

15. Financing risk management (continued)

e) Capital risk management

Gearing ratios

	2019 £m	2018 £m
Total borrowings	(3,766)	(3,359)
Less: cash and cash equivalents	501	289
Net debt	(3,265)	(3,070)
Regulatory capital value (RCV)	5,671	5,468
Total capital	2,406	2,398
Less: unamortised bond costs and swap indexation	(52)	(48)
Total capital per bond covenants	2,354	2,350
Gearing ratio	58%	57%

As set out on page 22, the Company 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 2018	2.4	4.2	2.4	0.9	9.9
Charged to income statement	-	1.4	-	-	1.4
Unused amounts reversed	-	-	(0.9)	-	(0.9)
Utilised in year	(0.8)	(2.1)	-	-	(2.9)
At 31 March 2019	1.6	3.5	1.5	0.9	7.5

Split as:

Amounts to be utilised within one year	1.6	1.3	1.1	0.1	4.1
Amounts to be utilised after more than one year	-	2.2	0.4	0.8	3.4
At 31 March 2019	1.6	3.5	1.5	0.9	7.5

	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 2017	2.4	4.2	2.4	0.9	9.9

Notes to the financial statements (continued)

16. Provisions (continued)

Restructuring provision

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

Uninsured loss provision

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

Other 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. Share capital

	2019 £m	2018 £m
Authorised		
501,050,000 (2018: 501,050,000) ordinary shares of £1 each	<u>501.1</u>	<u>501.1</u>
Allotted and fully paid		
309,876,374 (2018: 309,876,374) ordinary shares of £1 each	<u>309.9</u>	<u>309.9</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

18. Cash generated from operations

	2019 £m	2018 £m
Reconciliation of operating profit to cash generated from operations:		
Operating profit	70.6	77.1
Adjustments for:		
- Depreciation and amortisation	291.8	275.8
- Changes in working capital:		
Increase in trade and other receivables	(4.0)	(13.7)
Increase in trade and other payables	12.8	16.9
increase in Inventories	(0.7)	(0.3)
Pension contributions above service cost	(6.7)	(5.1)
Decrease in provisions	(2.4)	(2.0)
	<u>(1.0)</u>	<u>(4.2)</u>
Cash generated from operations	<u>361.4</u>	<u>348.7</u>

Notes to the financial statements (continued)

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:	2019 £m	2018 £m
Cash and cash equivalents	<u>490.3</u>	<u>274.8</u>
	490.3	274.8
Debt due after one year	(3,155.5)	(2,883.5)
Debt due within one year	(171.8)	(28.7)
Finance leases	(435.0)	(435.9)
Accrued interest	<u>(51.0)</u>	<u>(49.0)</u>
	(3,813.3)	(3,397.1)
Net debt	<u>(3,323.0)</u>	<u>(3,122.3)</u>
b) The movement in net debt during the year may be summarised as:	2019 £m	2018 £m
Net debt at start of year	(3,122.3)	(2,944.5)
Movement in net cash	215.5	206.8
Movement in debt	<u>(364.6)</u>	<u>(324.0)</u>
Movement in net debt arising from cash flow	(149.1)	(117.2)
Movement in accrued interest	(2.0)	(0.7)
Indexation of index-linked debt	(50.1)	(60.1)
Other non-cash movements	<u>0.5</u>	<u>0.2</u>
Movement in net debt during the year	(200.7)	(177.8)
Net debt at end of year	<u>(3,323.0)</u>	<u>(3,122.3)</u>

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:

	2019 £000	2018 £000
Salary (including benefits in kind)	1,782	1,457
Fees	<u>603</u>	<u>600</u>
	2,385	2,057
Long-term incentive plan	<u>126</u>	<u>128</u>
Highest paid Director: C Jones (2018: C Jones)		
Aggregate emoluments ¹	<u>562</u>	<u>553</u>
Accrued pension under defined benefit scheme	(17)	78
Long-term incentive plan	46	48

¹ excluding pension accrual and long-term incentive plan

Notes to the financial statements (continued)

20. Employees and Directors (continued)

Retirement benefits are accruing to two Directors (2018: two) under defined benefit schemes. None of the Directors is a member of the defined contribution scheme (2018: none).

Remuneration payable to the Executive Directors in respect of the financial year ended 31 March 2019 was as follows:

- a base salary (which had been increased by 3% in April 2018) plus pension (or equivalent payments) and private health and permanent health benefits;
- Under the AVPS, 2018-19 awards have been made up of: 23% of base salary for performance against the Customer (9.7%) and Compliance (13.3%) elements of the scheme, 16.6% of base salary for performance against the Total Expenditure (Totex) Cost and Bad Debt element, 7.7% for performance against Strategic (Annual Focus), between 15% and 20% for performance against Personal Objectives, making a total award of between 62.3% and 67.3% of base salary for each Executive Director.
- 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 2018-19 will not be known until later in the summer. However, we estimate that Welsh Water will be ranked 5th out of the eleven 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 15% of salary (50% 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 2019 Remuneration Report which forms part of Glas Cymru's 2019 annual report and consolidated financial statements.)

b) Staff costs during the year

	2019 £m	2018 £m
Wages and salaries	133.2	125.2
Social security costs	13.5	13.2
Other pension costs	12.7	12.7
	<u>159.4</u>	<u>151.1</u>

Of the above, £60.3m (2018: £53.8m) 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	2019 Number	2018 Number
Regulated water and sewerage activities	<u>3,444</u>	<u>3,384</u>

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:

	2019 £m	2018 £m
Executive Directors	1.7	1.6
Other key personnel	1.8	1.7
	<u>3.5</u>	<u>3.3</u>

Notes to the financial statements (continued)

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 2017. A new defined contribution scheme, the Dŵr Cymru Defined Contribution Scheme, was introduced from 1 January 2006.

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2016 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated at 31 March 2019 and the principal assumptions made by the actuaries were:

	2019	2018
Discount rate	2.6%	2.8%
Inflation assumption	3.2%	3.1%
Rate of increase in pensionable salaries	3.2%	3.1%
Rate of increase in pensions in payment	3.1%	3.0%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	87.1 years	87.1 years
- Current pensioners aged 65 - females	89.2 years	89.1 years
- Future pensioners aged 65 (currently aged 45) - males	88.5 years	88.4 years
- Future pensioners aged 65 (currently aged 45) - females	90.7 years	90.6 years

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.

Changes in the defined benefit obligation are as follows:

	2019	2018
	£m	£m
At 1 April	474.1	497.3
Current service cost	0.4	0.3
Interest expense	13.0	13.5
Remeasurement: loss/(gain) from change in financial assumptions	24.9	(8.7)
Benefits paid	(24.0)	(28.3)
At 31 March	<u>488.4</u>	<u>474.1</u>

Changes in the fair value plan assets are as follows:

	2019	2018
	£m	£m
At 1 April	398.0	404.9
Interest income	10.9	11.0
Experience gains	5.0	3.5
Contributions	7.0	6.9
Benefits paid	(24.0)	(28.3)
At 31 March	<u>396.9</u>	<u>398.0</u>

Notes to the financial statements (continued)

21. Pension commitments (continued)

	2019	2018
	£m	£m
Scheme assets		
Cash	2.6	4.4
Equity	303.1	310.0
Absolute return	20.2	20.0
Property	29.1	28.6
Private equity	41.9	35.0
Total assets	396.9	398.0

With the exception of cash, assets consist of pooled investment funds which are not quoted on an active market, shown by category in the table above. Of the total, assets with a fair value of £149m (2018: £145m) are Level 3 financial assets; these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumptions during the year.

	2019	2018
	£m	£m
Present value of funded obligations	(488.4)	(474.1)
Fair value of plan assets	396.9	398.0
	(91.5)	(76.1)
EFRBS unfunded liability	(4.7)	(4.3)
Net defined benefit liability recognised in the balance sheet	(96.2)	(80.4)

The contributions paid in the year to 31 March 2019 include special contributions of £6.7m (2018: £6.7m). The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ending 31 March 2020 amount to £3.5m (2018: £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.

EFRBS

During 2011, the Company put arrangements in place via an Employer-Financed Retirement Benefit Scheme (EFRBS) for four 'capped' Executive Members of the scheme. The accrual of benefits under this agreement is conditional on remaining a member of the DCWW Pension Scheme. At 31 March 2019, there were three Executive Members with entitlements under this arrangement, one of whom has commenced the receipt of his benefits.

22. Capital and other financial commitments

The Company's business plan at 31 March 2019 shows net capital expenditure and infrastructure renewals expenditure of £466m (2018: £478m) during the next financial year: £434m relates to the AMP6 plan and £32m for AMP7 early start schemes. 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 the capital investment programme approved by its regulator, Ofwat.

Notes to the financial statements (continued)

23. Related party transactions

Company interest payable to Dŵr Cymru (Financing) Limited (DCF), another member of the Glas Cymru Holdings Cyfyngedig Group, was £144,820,000 during the year (2018: £144,527,000). As at 31 March 2019 the balance outstanding on the intercompany loan and accrued interest from DCF stood at £2,577,311,000 (2018: £2,560,975,000). 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 Welsh Water Infrastructure Limited of £312,542 (2018: £69,864), Welsh Water Organic Energy (Cardiff) Limited of £4,874 (2018: nil) and Welsh Water Organic Energy Limited of £7,509 (2018: nil) were paid by the Company on their behalf. These transactions have been reported as intercompany balances payable.

During the year no dividends were paid or received (2018: £nil).

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 2019 the market value of the trust fund was £117m (2018: £115m).

Interest receivable includes £2.6m (2018: £2.8m) 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.