

Glas Cymru Cyfyngedig

Directors' report and financial statements
for the year to 31 March 2014

Company No: 3975719

Registered office:

Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

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DIRECTORS' REPORT

This Report should be read in conjunction with the Corporate Governance Report (page 55) and The Audit Committee Report, which collectively constitute the Directors' Report.

Glas Cymru Cyfyngedig (Company number 03975719) is a company limited by guarantee incorporated in England and Wales. Our registered office is Pentwyn Road, Nelson, CF46 6LY.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the company's performance, business model and strategy. In order to arrive at this position, the Board were assisted in the following ways:

- Annual Report was drafted by senior management and overall co-ordination overseen by the Company Secretary and Director of Communications to ensure consistency.
- Reviews of drafts undertaken by Members of the Executive team and a verification process involving the Reporter and the company's auditors, has been undertaken.
- The final draft was reviewed by the Audit Committee prior to review and approval by the Board, and submission to Members for approval.

The Board has prepared a Strategic Report which provides a summary of the development and performance of the company's business in the year ended 31 March 2014 and covers likely future developments.

Directors: The names and brief biographical details of the Directors are given on page 61 of this document.

All Directors served throughout the year ended 31 March 2014 except Graham Edwards who joined the Board in October 2013. At the 2014 AGM, John Bryant will stand down, Graham Edwards will formally stand for election for the first time and all other Directors will stand for re-election. This will meet the requirement under our Articles of Association for one third of Directors to retire by rotation. The Board has endorsed the effectiveness and commitment (and, in respect of the Non-Executive Directors, the independence) of the Directors and recommends each for re-election. Further details are set out in the Notice of the 2014 AGM which will take place on Friday 4th July 2014. The Non-Executive Directors' letters of appointment are made available for public inspection.

No Director has, or has had, a material financial interest, directly or indirectly, in any contract significant to the Company's business and the Board has not been requested to use, and has not used, its discretion under Article 57 of Glas Cymru's Articles of Association which allows the approval of a potential conflict of interest. Details of the remuneration of individual Directors and of the remuneration strategy approved by the Board are included in the Remuneration Report for the year ended 31 March 2014 contained in this Annual Report. A resolution will be proposed at the 2014 AGM to approve the 2014 Remuneration Report.

The Company has in place Directors' and Officers' insurance giving cover against legal action brought against the Directors and an indemnity in circumstances where a director has not acted fraudulently or dishonestly. The indemnity is a qualifying indemnity for the purpose of the Companies Act and is for the benefit of all Directors. No claims have been made against this policy since the date of the last report.

Employees: At 31 March 2014, the Group had 2,954 employees. Our success is dependent upon our having highly committed and motivated people and in other sections of this annual report we describe how we are engaging with colleagues and developing the talent and core competence of the business.

We do will 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 would help overcome or minimise the difficulty. It is the policy of the Group 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.

Occupational Health and Safety:

We are committed to high standards of occupational health and safety and over the period 2013-14 our like-for-like performance improved with fewer RIDDOR accidents. More information on our health and safety strategy and performance is provided in our 2014 Occupational Health and Safety Report which is available on our website.

Research and Development:

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

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

During the year our carbon emissions fell by 13 ktCO₂ or 5% percent to 243 ktCO₂ (256 in 2012/13). The biggest single factor was as a result of a significant reduction in the carbon content of the electricity grid from last year (this factor is based on the proportion of electricity derived from each source – more wind and nuclear in the mix means lower carbon). Our own reductions came mainly from increased on-site renewable energy generation (up by 6 GWh (3 ktCO₂) to 43 GWh). With further projects in delivery for 2014-15 we remain on track to hit our 2015 target for CO₂.

For consistency across all our reports, we report carbon based on the Defra methodology for reporting to OfWat. Under the Defra/DECC guidelines for annual reporting, the figure is 249 ktCO₂e (equivalent not previously reported). The difference is made up mainly from the impact of chemical usage, principally granular activated carbon (GAC).

Corporate Social Responsibility: We have a firm commitment to environmental responsibility and to being a good neighbour and a trusted partner in the communities we serve. To earn this trust, we have to show that we behave fairly and responsibly in the interests of customers, that we use resources wisely, and that we make an appropriate contribution to community. Examples from 2013-14 include our education centres, Rainscape and Stop the Block campaigns, also a wide range of ecological and biodiversity related projects such as work to regenerate upland peat bogs, and protect the quality of our raw water sources.

Political Donations: It is Board policy not to make donations to political parties or to incur political expenditure and during 2013-14 no donations or payments were made which are required to be disclosed under section 366 of the Companies Act 2006.

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

Regulatory Accounts (Dŵr Cymru):

Condition F of the Instrument of Appointment under which Welsh Water operates requires that we publish additional financial information as an 'appointed business'. A copy of this information is published on our website.

Events after the Financial Year-End:
There have been no post balance sheet events.

Annual General Meeting: The 2014 AGM will be held on Friday 4 July 2014 at the Marriott Hotel, Swansea. The business for the AGM includes the approval of the Directors' Report and Financial Statements and the Remuneration Report for the year ended 31 March 2014 and approval of the Remuneration Policy, the re-election of all Directors, a resolution to authorise the Company to make donations to EU political organisations and to incur EU political expenditure up to defined limits and resolutions to reappoint the auditors and to authorise the Audit Committee to fix their fees. These resolutions are all matters of ordinary business – there is no special business. Further information in respect of all resolutions is provided in the Notice of 2014 AGM sent to the Members of Glas Cymru with this report.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a fair, balanced and understandable view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

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

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

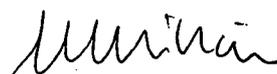
Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Going Concern: The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements for the year ended 31 March 2014 have been prepared on a going concern basis.

Auditors: PricewaterhouseCoopers LLP acted as the auditors to Glas Cymru for the accounts for the year ended 31 March 2014. As part of the audit process we have confirmed that as far as each Director is aware there is no relevant audit information of which the auditors are unaware and that they have taken steps to be made aware of any relevant audit information and to establish that the Company's auditors are aware of that information. A resolution to re-appoint PricewaterhouseCoopers will be put to Members at the 2014 AGM.

By order of the Board



Nicola Williams
General Counsel and Company Secretary
12 June 2014

Independent Auditors' Report to the Members of Glas Cymru Cyfyngedig

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2014 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

What we have audited

The Group financial statements and Parent Company financial statements (the "financial statements"), which are prepared by Glas Cymru Cyfyngedig, comprise:

- the Group and Parent Company statements of financial position as at 31 March 2014;
- the Group income statement and statement of comprehensive income for the year then ended;
- the Group and Parent Company statements of changes in equity and statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

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

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the Group financial statements as a whole to be £9.1million, which represents 2.5% of Group EBITDA. Given that the company has no shareholders and reinvests all surpluses back into the company in the form of infrastructure improvements and improvements of the delivery of the service to customers, there is a focus on the generation of positive operating cash flows, for which EBITDA is a reasonable proxy.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.45 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group financial statements are a consolidation of seven entities, comprising the group's operating businesses and centralised functions.

The Group audit team audited the complete financial information of all seven entities. This gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 63.

Area of focus	How the scope of our audit addressed the area of focus
<p>Provision for impairment of trade receivables We focused on the provision calculated for impairment because the calculation method is sensitive to changes in assumptions and an element of judgement is required in assessing the effect changes in external factors will have on future impairment losses.</p>	<p>We evaluated and tested the design and operating effectiveness of controls surrounding the calculation of the provision for impairment of trade receivables and compared the consistency of the approach taken by management with prior years. We also tested the underlying data upon which the calculations were based and challenged the key judgements applied in calculating the provision by applying sensitivity analysis using a number of reasonably possible scenarios.</p>
<p>Valuation of pension scheme We focused on this area because the pension scheme liability is material to the financial statements and sensitive to a number of subjective assumptions.</p>	<p>We considered the competency and qualifications of the actuary who performed the valuation and checked that the appropriate data had been used in the calculation. In addition, we formed an independent expectation of what the key pension valuation assumptions should be and compared them to those adopted by management. We checked the disclosure of the information provided by the actuary.</p>
<p>Allocation of capital costs Expenditure on the capital programme is either capitalised as a capital addition or expensed within the income statement. Given the complexity of the capital programme, the classification of some of the expenditure is open to judgement. We have determined the key areas of judgement to be around the costs classified as Infrastructure renewals expenditure, the capitalisation of support costs and the capitalisation of intangible additions.</p>	<p>We evaluated and tested the design and operating effectiveness of controls addressing the risk. We tested a sample of costs capitalised within Property, plant and equipment and intangible assets met the recognition criteria of IAS 16 and IAS 38 respectively. In relation to Infrastructure renewals expenditure which has been expensed in the Income statement we tested a sample to determine that it is appropriate that these costs have not been capitalised.</p>
<p>Valuation of derivative financial instruments The group has a number of complex derivative financial instruments whose valuation is both complex and sensitive to small changes in the valuation basis.</p>	<p>We performed independent valuations of the derivative financial instruments and compared them to those obtained by management.</p>

Presumed areas of focus	How the scope of our audit addressed the area of focus
<p>Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.</p> <p>Whilst we have assessed the risk and performed work across all revenue streams, the area subject to the greatest level of estimation is the measured income accrual.</p>	<p>We evaluated and tested the design and operating effectiveness of controls addressing the risk and the revenue recognition policy adopted by the group. We also tested the flow of revenue transactions through the use of computer aided auditing techniques and investigated unusual entries. For balances held with other water companies we directly confirmed the revenue and debtor balance. In addition, we tested manual journals affecting revenue and tested the reconciliations between the revenue systems used by the Group and its financial ledgers. Specifically in relation to the measured income accrual, we have checked that appropriate data has been used in the calculation and that the calculation is accurate.</p>
<p>Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.</p>	<p>We assessed the overall control environment of the Group, including the arrangements for staff to “whistle-blow” inappropriate actions, and interviewed senior management and the Group’s internal audit function. We examined the significant accounting estimates and judgments relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. We also tested journal entries focussing on manual journals.</p>

Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 82, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review the statement on going concern as if the Parent Company were a premium listed company. We have nothing to report having performed our review. As noted in the Directors’ statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting.

The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors’ use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group’s and Parent Company’s ability to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Opinion on additional disclosures Directors’ Remuneration Report

The Parent Company voluntarily prepares a Directors’ Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Directors’ Remuneration Report specified by the Companies Act 2006 to be audited as if the Parent Company were a quoted company.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception
Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Corporate Governance Statement

The Directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the parent company were a premium listed company. On page 82 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's performance, business model and strategy.

On page 64, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Matter on which we have agreed to report by exception

Corporate Governance Statement
The Parent Company's voluntary Corporate Governance Statement includes details of the Parent Company's compliance with the UK Corporate Governance Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating

to the parent company's compliance with the nine provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Parent Company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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



Katharine Finn
Senior Statutory Auditor
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

Cardiff
12 June 2014

FINANCIAL STATEMENTS



CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2014

			2014	As restated 2013
Continuing activities	Note	£m	£m	£m
Revenue			736.5	716.4
Operating costs:				
- Operational expenditure	3		(296.4)	(297.7)
- Infrastructure renewals expenditure	3		(71.8)	(79.4)
- Depreciation and amortisation	3		(163.7)	(158.7)
			(531.9)	(535.8)
Operating profit			204.6	180.6
Financing costs:				
- Interest payable and similar charges	4a	(160.6)		(141.3)
- Finance income receivable	4a	6.3		7.0
- Fair value gains/(losses) on derivative financial instruments	4b	94.2		(61.2)
			(60.1)	(195.5)
Profit/(loss) before income tax			144.5	(14.9)
Taxation	5		10.8	14.4
Profit/(loss) for the year			155.3	(0.5)

UNDERLYING PROFIT FOR THE YEAR

(Profit before taxation, fair value adjustments and accounting profit on lease termination)

		2014	As restated 2013
		£m	£m
Profit/(loss) before taxation per Income Statement		144.5	(14.9)
Adjustment for:			
- Fair value (gains)/losses on derivative financial statements (see note 4b)		(94.2)	61.2
- Accounting profit on lease termination		—	(20.1)
Underlying profit for the year		50.3	26.2

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's income statement. The profit of the parent company for the year was nil (2013: nil).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

		2014	As restated 2013
	Note	£m	£m
Profit for the year		155.3	(1.1)
Items that will not be reclassified to profit or loss			
Actuarial gain recognised in the pension scheme	20	24.9	5.0
Movement on deferred tax asset relating to pension scheme	5	(5.8)	(0.9)
Total comprehensive income for the year		174.4	3.0

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2014

		2014	As restated 2012
		£m	£m
Balance as at 1 April		(74.4)	(77.4)
Total comprehensive income for the year		174.4	3.0
Reserves/(deficit) at 31 March		100.0	(74.4)

There were no changes in reserves of the parent company during the year (2013: none).

The restatement of the prior year comparative is in consequence of the revisions to IAS 19 which require a change to the calculations of the interest cost in relation to defined benefit pension schemes. Further information is provided in note 1

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2014

	Note	2014 £m	2013 £m
Assets			
Non-current assets			
Property, plant and equipment	7	3,442.3	3,336.1
Intangible assets	8	83.9	66.1
Investments	9	—	—
		3,526.2	3,402.2
Current assets			
Trade and other receivables	10	526.7	526.1
Inventories		2.3	1.6
Financial assets:			
- derivative financial instruments	14	3.7	4.4
Cash and cash equivalents	11	94.4	157.4
		627.1	689.5
Total assets		4,153.3	4,191.7
Liabilities			
Current liabilities			
Trade and other payables	12	(535.5)	(542.6)
Financial liabilities:			
- borrowings	13	(30.6)	(79.7)
- derivative financial instruments	14	(32.3)	(37.9)
Provisions for other liabilities and charges	16	(4.6)	(10.5)
		(603.0)	(670.7)
Net current assets		24.1	18.8
Non-current liabilities			
Trade and other payables	12	(80.2)	(67.7)
Financial liabilities:			
- borrowings	13	(2,879.3)	(2,815.2)
- derivative financial instruments	14	(236.4)	(325.7)
Post employment benefits	20	(2.8)	(32.8)
Provisions for other liabilities and charges	16	(10.3)	(10.1)
		(3,209.0)	(3,251.5)
Net assets before deferred tax		341.3	169.5
Deferred tax - net	6	(241.3)	(243.9)
Net assets/(liabilities)		100.0	(74.4)
Reserves/(deficit)		100.0	(74.4)

The financial statements on pages 88 to 119 were approved by the Board of Directors on 6 June 2013 and were signed on its behalf by:



C A Jones
Chief Executive Officer



P D Perry
Chief Operating Officer

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PARENT COMPANY BALANCE SHEET AS AT 31 MARCH 2014

	Note	2014 £m	2013 £m
Assets			
Non-current assets			
Investment in subsidiaries	9b	—	—
Trade and other receivables	10	3.4	3.4
		—	3.4
Current assets			
Cash and cash equivalents	11	0.1	0.1
		0.1	0.1
Liabilities			
Current liabilities			
Trade and other payables	12	(3.5)	(3.5)
		(3.5)	(3.5)
Net assets			
		—	—
Reserves			
Retained earnings		—	—
Total reserves		—	—

The financial statements on pages 88 to 119 were approved by the Board of Directors on 6 June 2013 and were signed on its behalf by:



C A Jones
Chief Executive Officer



P D Perry
Chief Operating Officer

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31-MARCH 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	17a	351.8	326.0
Interest paid	17b	(174.7)	(124.5)
Income tax received		—	4.2
Net cash generated from operating activities		177.1	205.7
Cash flows from investing activities			
Interest received		6.3	7.3
Purchase of property, plant and equipment		(227.4)	(199.2)
Purchase of intangible assets		(55.5)	(53.2)
Grants and contributions received		14.6	13.7
Net cash outflow from investing activities		(262.0)	(231.4)
Net cash outflow before financing activities		(84.9)	(25.7)
Cash flows from financing activities			
Long term loans received		75.0	—
Term loan repayments		(13.5)	(13.5)
Finance lease principal payments		(39.4)	(103.6)
Other loan repayments		(0.2)	(0.3)
Net cash inflow/(outflow) from financing activities		21.9	(117.4)
Decrease in cash and cash equivalents	18	(63.0)	(143.1)
Cash and cash equivalents at 1 April		157.4	300.5
Cash and cash equivalents at 31 March	11	94.4	157.4

The parent company had no cash flows during the year (2013: none).

1 ACCOUNTING POLICIES, FINANCING RISK MANAGEMENT AND ACCOUNTING ESTIMATES

Accounting policies for the year ended 31 March 2014

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

Going concern

As described in the financing risk management section the group meets its day to day working capital requirement through its bank facilities. The current economic conditions continue to create uncertainty over the level of demand for the group's services; and the availability of bank finance for the foreseeable future. The group'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 enquires, the Directors have a reasonable expectation that the group has adequate resources to continue operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its financial statements.

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 group'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 97.

Changes in accounting policies and disclosures

The following standards have been adopted by the group for the first time in the financial year beginning on 1 April 2013 and have a material impact on the group. As at 31 March 2014 there were no new standards or interpretations in issue but not yet effective which are expected to have a material impact on the company's financial statements.

IAS 19 (revised) 'Employee benefits'

IAS 19 (revised) amends the accounting for employment benefits. The group has applied the standard retrospectively in accordance with the transition provisions of the standard. The impact on the group has been in the following areas:

- The standard requires past service cost to be recognised immediately in profit or loss.
- The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. There is no change to determining the discount rate; this continues to reflect the yield on high-quality corporate bonds. This has increased the income statement charge as the discount rate applied to assets is lower than the expected return on assets.

This has no effect on total comprehensive income as the increased charge in profit or loss is offset by a credit in other comprehensive income.

- There is a new term 'remeasurements'. This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. 'Retirement benefit obligations' as previously reported have been restated at the reporting dates to reflect the effect of the above. The effect of the change in accounting policy on the statement of cash flows was immaterial.

IFRS 10 'Consolidated financial statements'

The group has early adopted IFRS 10. Under IFRS 10 subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where the group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10.

IFRS 13 'Fair value measurement'
IFRS 13 'Fair value measurement' applies to annual periods beginning on or after 1 January 2013. It provides a single framework for measuring fair values and requires additional disclosures about fair value measurements.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 'Financial instruments'
IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Basis of consolidation

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

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 (see the 'Critical accounting estimates' section for further details). Revenue recognised reflects the value of services provided to customers in the year. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Segment reporting

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

Property, plant and equipment

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.

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, overhead operational structures and fittings).

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

Infrastructure assets comprise infrastructure assets principally impounding reservoirs and a network of underground water and wastewater systems. For accounting purposes, the water system is segmented into components representing geographical operating areas, reflecting the way the group operates its wastewater activities.

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

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 and software	3 – 40 years

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

Intangible assets

Intangible assets, which comprise principally computer software, systems 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

Where assets are financed by leasing arrangements, which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are capitalised and included in 'property, plant and equipment' with the corresponding liability to the lessor included within 'financial liabilities – borrowings'. Leasing payments are treated as consisting of a capital element and a finance charge, the

capital element reducing the obligation to the lessor with the finance charge being recognised over the period of the lease based on its implicit rate so as to give a constant rate of interest on the remaining balance of the liability.

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

Grants and customer contributions

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

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

Capital expenditure programme incentive payments

The group'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 recognised only on completed projects.

Trade receivables

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

Movements in the provision for impairment are recorded in the income statement.

Cash and cash equivalents

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

Pension costs**1) Defined benefit scheme**

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

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan 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.

The group's accounting treatment has been updated in accordance with revisions to IAS 19 (see basis of preparation).

2) Defined contribution scheme

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

The group's accounting treatment has been updated in accordance with revisions to IAS 19 (see basis of preparation)

Financial liabilities

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

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

Derivative instruments utilised by the group are interest rate and inflation swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Derivatives are recognised initially and subsequently re-measured at fair value (based on market price data from relevant counterparties). During the year to 31 March 2014, none of the group's derivatives qualified for hedge accounting under IAS 39 (2013: none).

These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

Deferred taxation

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Provisions

Provisions for restructuring costs, dilapidations and uninsured losses are recognised when the group 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 group 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.

Borrowing costs

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

Financing risk management objectives and policies

Treasury activities are managed within a formal set of treasury policies and objectives, which is reviewed regularly and approved by the Board. The policies specifically prohibit 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 be changed only with the consent of Dŵr Cymru Cyfyngedig's Security Trustee. The risk is mitigated further by limiting exposure to any one counterparty. The group uses financial instruments to raise finance and manage operational risk; these instruments principally include listed bonds, finance leases, bank loan facilities and derivatives.

Credit risk

The group has a prudent policy for investing cash and short term bank deposits, set by the bond documentation within the Common Terms Agreement. Deposits of up to one year can be placed with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. 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 three months with banks subject to minimum short-term rating criteria of A1/P1/F1. Bond and commercial paper purchases of up to one year can be placed with certain AAA-rated supranationals only. The maximum cash investment with a single counterparty was £25m (2013: £60m).

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 group to inflation risk. Therefore 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 group 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 borrowings of £2,910m as at 31 March 2014 (2013: £2,895m) none related to floating rate debt (2013: none). The group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2014, 100% (2013: 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 'hedged' established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £265m in the balance sheet at 31 March 2014 (2013: £359m) 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. The company has forward-purchased around 70% of the estimated power requirement of the business over the remainder of the regulatory period to 31 March 2015. These contracts neither qualify as financial instruments under IAS 39 nor as onerous contracts under IAS 37 and, consequently, are not included in the financial statements until the contracts are effective.

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. The group's policy is to ensure that the maturity profile does not impose an excessive strain on its ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,910m (2013: £2,895m) 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 bond holders and other financial creditors, the group is required to have cash available to fund operations for 12 months. As at 31 March 2014, the group had committed undrawn borrowing facilities of £140m (2013: £215m) and cash and cash equivalents (excluding debt service payments account) of £73m (2013: £98m).

The group has revolving credit facilities totalling £140m with a group of six banks. £30m of these facilities will expire in May 2014, £20m is available to be drawn until May 2016 and £90m is available until May 2017. There is also a £10m overdraft facility (2013: £10m).

As at 31 March 2014 there was also a special liquidity facility of £135m (2013: £135m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants. The facility is renewable on an annual basis.

Capital risk

The group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the group operates, the group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the group's borrowing covenants) as a proportion of its Regulatory Capital Value (RCV) as linked to movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2014 gearing was 63%.

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

Critical accounting estimates

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

Provision for impairment of trade receivables

Individual impairment losses on customer debts are calculated based on an individual assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability of a failure to recover amounts when they fall into arrears.

The probability of failing to recover is determined by past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by 1%, the provision for impairment would increase or decrease by £0.7 million (2013: £0.6 million).

Pension benefits

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

Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2014 would increase or reduce by £6.8 million (2013: £8.0 million).

Measured income accrual

Revenue includes an accrual for unbilled charges at the year-end. The accrual is estimated using a defined methodology based upon the weighted average water consumption by tariff, which is calculated using historical billing information adjusted for changes in external factors, such as weather. The total accrual as at 31 March 2014 was £64.2 million (2013: £65.9 million). A 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.7 million (2013: £0.7 million).

Fair value estimation

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

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

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

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All of the group's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2014 were valued as follows:

Assets: Trading derivatives £0.0m, Treasury derivatives £3.7m. (March 2013: Trading derivatives £0.8m, Treasury derivatives £4.4m)

Liabilities: Trading derivatives £7.7m, Treasury derivatives £268.6m. (March 2013: Trading derivatives £1.9m, Treasury derivatives £363.6m).

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

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

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

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

2 SEGMENTAL INFORMATION

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

3 PROFIT/(LOSS) BEFORE TAXATION

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

	2014 £m	Group As restated 2013 £m
Operating charges		
- Power	42.6	38.8
- Chemicals	8.6	8.4
- Materials and equipment	5.1	2.8
- Vehicles and plant	7.7	9.8
- Office expenses	6.3	6.1
- Property costs	4.4	4.1
- Insurance	5.6	7.2
- Sewerage contractors	19.4	19.3
- Customer services contract	-	5.7
- Laboratories and analytical services	1.1	3.2
- Collection commissions	4.0	3.9
- IT contracts	21.8	20.4
- Bought-in services and other costs	24.7	26.7
	151.3	156.4
Employee costs (note 19)	113.7	104.2
Staff costs capitalised	(43.5)	(35.9)
	70.2	68.3
Research and development expenditure	0.4	0.5
Trade receivables impairment	28.5	27.4
Rates	29.7	29.3
Environment Agency charges	16.0	15.6
Fees payable to auditors	0.3	0.2
Total operational expenditure	296.4	297.7
Infrastructure renewals expenditure	71.8	79.4
Depreciation and amortisation		
- Owned assets	118.0	112.0
- Under finance leases	33.9	33.9
- Amortisation of intangible assets	12.5	13.0
- Profit on disposal of property, plant and equipment	(0.7)	(0.2)
	163.7	158.7
	531.9	533.1

The restatement of the prior year comparative is in consequence of the revisions to IAS 19 which require a change to the calculations of the interest cost in relation to defined benefit pension schemes. Further information is provided in note 1.

Services provided by the group's auditors

During the year, the group obtained the following services from its statutory auditors:

	2014 £000	Group 2013 £000
Audit fees		
Audit of parent company and consolidated financial statements	13	12
Audit of subsidiary companies	91	87
Total statutory audit fees	104	99
Audit-related assurance services		
Review of interim financial statements	23	23
Regulatory audit services pursuant to legislation	28	41
Regulatory price review assurance work	49	-
Investor report reviews	8	8
Total audit and audit-related assurance services	212	171
Other services		
Replacement billings system project assurance work	74	
Other	27	24
Total other services	101	24
Total cost of services provided by the group's auditors	313	195

Regulatory audit services include audit work on the Regulatory Accounts and Principal Statement.

In addition to the above services, PricewaterhouseCoopers LLP acted as auditors to the DCWW Pension Scheme. The appointment of auditors to the pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The fees paid in respect of audit services to the pension scheme during the year were £18,000 (2013: £13,000).

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

4 FINANCING COSTS

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

	2014 £m	Group 2013 £m
Interest payable on bonds	(86.3)	(85.1)
Indexation on index-linked bonds	(38.5)	(38.9)
Interest payable on finance leases (including swaps to RPI)	(27.7)	(28.1)
Other loan interest	(12.3)	(12.1)
Other interest payable and finance costs	(2.4)	(2.2)
Net interest credit/(charge) on pension scheme liabilities	(1.3)	(1.5)
Accounting profit on termination of lease	-	20.1
Capitalisation of borrowing costs under IAS 23 (2014 5.7%; 2013: 4.9%)	7.9	6.5
	(160.6)	(141.3)
Finance income	6.3	7.0
Net finance income before fair value adjustments	(154.3)	(134.3)

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

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. Consequently, the group's interest rate and index-linked swaps are fair valued at each balance sheet date with the 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 held on the balance sheet.)

	2014 £m	Group 2013 £m
Fair value gains/(losses) on interest rate swaps	22.6	(12.5)
Fair value gains/(losses) on index-linked swaps	71.6	(48.7)
Total fair value losses on derivative financial instruments	94.2	(61.2)

Interest rate swap movements are caused by fluctuations in long-term swap rates, while the index-linked swap movements result from fluctuations in the value of index-linked gilts 3-month LIBOR.

5 TAXATION

Analysis of credit in the year

	2014 £m	Group 2013 £m
Current tax		
- Current tax on profits for the year	0.9	-
- Adjustment in respect of prior years	1.5	0.4
Total current tax	2.4	0.4
Deferred tax		
- Origination and reversal of timing differences	(39.9)	2.4
- Adjustment in respect of prior year	6.3	(0.6)
- Effect of tax rate change	36.2	10.7
Total deferred tax (note 6)	2.6	12.5
Taxation credit	5.0	12.9
Analysed as:		
Credit to Income Statement	10.8	13.8
Charge to Statement of Comprehensive Income	(5.8)	(0.9)
	5.0	12.9

Tax trading losses carried forward as at 31 March 2014 are circa £300m (2013: circa £400m).

The effective rate of tax for the year is lower (2013: lower) than the standard rate of corporation tax in the UK (2014: 23%, 2013: 24%). The differences are explained below:

	2014 £m	Group 2013 £m
Profit/(loss) before tax	144.5	(12.2)
Profit/(loss) before tax multiplied by the corporation tax rate in the UK of 23% (2013: 24%)	33.2	(2.9)
Effect of:		
- Adjustments in respect of prior years	(7.8)	0.2
- Other permanent differences	(0.2)	(0.2)
- Effect of tax rate change	(36.0)	(10.9)
- Movement on deferred tax asset relating to pension scheme	5.8	0.9
Total taxation credit	(5.0)	(12.9)

6 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2013: 23%).

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

	2014 £m	Group 2013 £m
At 1 April	243.9	256.4
Credit to Income Statement	(8.4)	(13.4)
Charge to Statement of Comprehensive Income	5.8	0.9
At 31 March	241.3	243.9

	2014 £m	Group 2013 £m
Effect of:		
- Tax allowances in excess of depreciation	353.9	441.7
- Capital gains rolled over	3.2	3.7
	357.1	445.4
- Deferred tax on tax losses carried forward	(61.2)	(109.3)
- Deferred tax on losses on derivative financial instruments	(53.1)	(82.9)
- Pensions	(0.2)	(7.4)
- Other tax differences	(1.3)	(1.9)
Net provision for deferred tax	241.3	243.9

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

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

The company has no deferred tax balance.

7 PROPERTY, PLANT AND EQUIPMENT

Group

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

The net book value of property, plant and equipment includes £126m in respect of assets in the course of construction (2013: £140.1m).

The net book value of property, plant and equipment includes £28.8m of borrowing costs capitalised in accordance with IAS 23 (2013: £20.2m), of which £7.2m were additions in the year (2013: £6.2m).

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000km of private drains and sewers has increased the size of the network significantly. Little information is available to judge the condition of those sewers – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the regulatory capital value of the business, a value of nil has been attributed to these assets in the financial statements as at 31 March 2014 (2013: nil).

Prior year					
	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2012	35.1	1,627.1	2,920.7	237.4	4,820.3
Additions net of grants and contributions	0.6	53.2	196.7	1.4	251.9
At 31 March 2013	35.7	1,680.3	3,117.4	238.8	5,072.2
Accumulated depreciation					
At 1 April 2012	17.9	212.3	1,132.8	225.4	1,588.4
Charge for the year	0.4	24.3	113.3	9.7	147.7
At 31 March 2013	18.3	236.6	1,246.1	235.1	1,736.1
Net book value					
At 31 March 2013	17.4	1,443.7	1,871.3	3.7	3,336.1

Assets held under finance leases

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

Group

Current year	Infrastructure assets £m	Operational structures £m	Total £m
At 31 March 2014			
Cost	611.8	275.5	887.3
Accumulated depreciation	(90.2)	(155.2)	(245.4)
Net book value	521.6	120.3	641.9
Prior year			
	Infrastructure assets £m	Operational structures £m	Total £m
At 31 March 2013			
Cost	611.8	307.7	919.5
Accumulated depreciation	(82.4)	(170.0)	(252.4)
Net book value	529.4	137.7	667.1

The parent company owns no property, plant or equipment.

8 INTANGIBLE ASSETS**Group**

Current year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2013			
	154.7	(88.6)	66.1
Additions/(charge for the year)	30.3	(12.5)	17.8
At 31 March 2014	185.0	(101.1)	83.9
Prior year			
	Cost £m	Amortisation £m	Net book value £m
At 1 April 2012			
	142.2	(75.6)	66.6
Additions/(charge for the year)	12.5	(13.0)	(0.5)
At 31 March 2013	154.7	(88.6)	66.1

Intangible assets comprise computer software and related system developments.

The net book value of intangible assets includes £2.0m in respect of assets in the course of construction (2013: £13.0m).

The net book value of intangible assets includes £1.1m of borrowing costs capitalised in accordance with IAS 23 (2013: £1.1m), of which £0.3m were additions in the year (2013: £0.3m).

The parent company owns no intangible assets.

9 INVESTMENTS

(a) Group

	2014	2013
	£m	£m
Cost and net book value		
At 1 April and 31 March	-	-

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

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

In addition, the group held 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) plc. This was redeemed on 31 March 2014.

(b) Parent Company

The company has a £1 investment in Glas Cymru (Securities) Cyfyngedig (100% holding) and has indirect investments in the following subsidiary undertakings:

	Principal activities	Country of incorporation	Holding
Dŵr Cymru (Holdings) Limited	Holding company	England and Wales	100%
Dŵr Cymru Cyfyngedig	Water and sewerage	England and Wales	100%
Dŵr Cymru (Financing) Limited	Raising finance	Cayman Islands	100%
Welsh Water Utilities Finance plc	Dormant	England and Wales	100%
Dŵr Cymru Customer Services Limited	Income and billing services	England and Wales	100%

Further information on the group's structure is available in the Annual Report on page 57.

10 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	£m	£m	£m	£m
Current				
Trade receivables	502.8	498.5	-	-
Provision for impairment of receivables	(65.9)	(61.4)	-	-
Trade receivables - net	436.9	437.1	-	-
Prepayments and accrued income	67.4	72.1	-	-
Other receivables	22.4	16.9	-	-
	526.7	526.1	-	-
Non-current				
Amounts receivable from group undertakings	-	-	3.4	3.4
	-	-	3.4	3.4
Total trade and other receivables	526.7	526.1	3.4	3.4

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

As at 31 March 2014, based on a review of historical collection rates it was considered that £65.9m (£2013:£61.4m) of trade receivables were impaired and these have therefore been provided for (2013: £61.4m). The impaired receivables relate mainly to the supply of measured and unmeasured water. Trade receivables aged greater than one month are past due; the net column shows amounts deemed not to be impaired.

The ageing of receivables was as follows:

Current year	Total	Provided for	Net
Trade receivables	£m	£m	£m
Billed in advance	387.6	-	387.6
Under one month	11.2	(5.3)	5.9
Between one and six months	27.7	(13.5)	14.2
Between six months and one year	25.8	(12.7)	13.1
Between one and two years	27.1	(19.5)	7.6
Between two and three years	19.1	(14.1)	5.0
Over three years	4.3	(0.8)	3.5
	502.8	(65.9)	436.9

Prior year	Total	Provided for	Net
Trade receivables	£m	£m	£m
Billed in advance	389.9	-	389.9
Under one month	16.8	(4.2)	12.6
Between one and six months	31.1	(13.1)	18.0
Between six months and one year	22.6	(9.9)	12.7
Between one and two years	22.3	(18.7)	3.6
Between two and three years	14.5	(14.2)	0.3
Over three years	1.3	(1.3)	-
	498.5	(61.4)	437.1

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

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

	2014	2013
	£m	£m
At 1 April	61.4	54.6
Charge to Income Statement	27.9	26.7
Receivables written off during the year as uncollectable	(23.4)	(19.9)
At 31 March	65.9	61.4

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.

During the year the group has written off £24.0m of debt which had been provided for in full (2013: £19.9m).

11 CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	£m	£m	£m	£m
Cash at bank and in hand	4.8	[13.7]	0.1	0.1
Short-term deposits	89.6	171.1	-	-
	94.4	157.4	0.1	0.1

The effective interest rate on short-term deposits as at 31 March 2014 was 0.5% (2013: 0.4%) and these deposits had an average maturity of 5 days (2013: 12 days). All cash and cash equivalents are held in sterling.

12 TRADE AND OTHER PAYABLES

Current	Group		Company	
	2014	2013	2014	2013
	£m	£m	£m	£m
Trade payables	47.1	49.3	-	-
Capital payables	30.2	33.9	-	-
Amounts due to group undertakings	-	-	3.5	3.5
Social security and other taxes	3.8	3.4	-	-
Accruals and deferred income	454.4	456.0	-	-
	535.5	542.6	3.5	3.5

Non-current	Group		Company	
	2014	2013	2014	2013
	£m	£m	£m	£m
Deferred income	80.2	67.7	-	-

13 FINANCIAL LIABILITIES – BORROWINGS

Current	2014	Group
	£m	£m
Interest accruals	0.9	51.3
Unamortised bond premium	0.6	0.6
Unamortised bond issue costs	(0.3)	(0.3)
European Investment Bank loans	15.9	13.5
Local authority loans	0.3	0.3
Finance lease obligations	13.2	14.3
	30.6	79.7

Non-current	2014	Group
	£m	£m
Interest accruals	49.2	38.5
Bonds	1,976.8	1,938.4
Unamortised bond premium	7.9	8.4
Unamortised bond issue costs	(5.1)	(5.6)
KfW Bank loan	35.0	35.0
European Investment Bank loans	256.6	197.5
Local authority loans	0.8	1.0
Finance lease obligations	558.1	602.0
	2,879.3	2,815.2

The parent company has no borrowings.

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

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

- i) a first fixed and floating security over all of DCC's assets and undertaking, to the extent permitted by the Water Industry Act, other applicable law and its licence; and
- ii) a fixed and floating security given by the guarantors referred to above which are accrued on each of these companies' assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

The group's Class A Bonds of £988.8m (2013: £969.5m) benefit from a guarantee from MBIA UK Insurance Limited ("MBIA"). MBIA's credit rating has been reduced to B3 and BBB+ by Moody's and S&P respectively, and is no longer rated by Fitch. The credit rating of the Class A bonds has therefore defaulted to the higher underlying rating of these bonds, of A3/A/A from Moody's, S&P and Fitch respectively. The underlying rating reflects the standalone credit quality of these bonds without the benefit of the MBIA guarantee, and is the same as the credit ratings of the group's Class B bonds of £988.1m (2013: £968.9m).

14 DERIVATIVE FINANCIAL INSTRUMENTS

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

Group - 2014	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	3.7	(21.4)
Interest rate swaps	-	(10.9)
	3.7	(32.3)
Non-current		
Index-linked swaps	-	(175.0)
Interest rate swaps	-	(61.4)
	-	(236.4)
Total	3.7	(268.7)

Group - 2013	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	4.4	(26.5)
Interest rate swaps	-	(11.4)
	4.4	(37.9)
Non-current		
Index-linked swaps	-	(240.0)
Interest rate swaps	-	(85.7)
	-	(325.7)
Total	4.4	(363.6)

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

The parent company has no derivative financial instruments or embedded derivatives.

Interest rate swaps

At 31 March 2014 an interest rate swap fixes the interest rate on £192m (2013: £192m) of floating liabilities held by the group. The maturity date of the swap is 31 March 2031 and the quarterly LIBOR fixed interest rate is 5.67%. In addition, £50m (2013: £50m) of finance lease liabilities have been swapped from a floating to a fixed LIBOR rate of 3.57% until March 2017. The notional amount of the swap is £48m (2013: £50m).

Index-linked swaps**Finance lease swaps**

The index-linked swaps have the effect of index-linking the interest rate on £436m (2013: £439m) 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 2014 is £440m (2013: £528m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2014. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The principal terms are as follows:

Notional amount	£440m amortising (2013: £528m amortising)
Average swap maturity	23 years (2013: 24 years)
Average interest rate	1.63% fixed plus RPI (2013: 1.63% fixed plus RPI)

Bond swap

The index-linked swaps have the effect of index-linking the interest rate on £100m of fixed rate bonds by reference to the RPI.

The principal terms are as follows:

Indexed notional amount	£128m (2013: £124m)
Swap maturity	43 years (2013: 44 years)
Interest rate	1.35% indexed by RPI (2013: 1.35% indexed by RPI)

15 FINANCIAL RISK MANAGEMENT

The policies of the group in respect of financial risk management are included in the accounting policies note on page 95. 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:

	2014	2013
Assets:		
Cash and cash equivalents	0.5%	0.4%
Liabilities:		
Bonds	5.2%	5.1%
European Investment Bank loans	1.1%	1.0%
KfW loan	1.2%	1.2%
Local authority loans	5.0%	6.0%
Finance lease obligations	1.0%	1.2%

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 the index-linked bonds.

b) Liquidity risk

Group - 2014	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	94.4	-	-	-	94.4
Trade and other receivables	526.7	-	-	-	526.7
	621.1	-	-	-	621.1
Liabilities:					
Bonds	0.6	0.6	0.6	1,983.5	1,985.3
KfW Bank loan	-	-	35.0	-	35.0
European Investment Bank loans	15.9	11.6	92.6	152.4	272.5
Local authority loans	0.3	0.3	0.5	-	1.1
Finance lease obligations	13.2	14.2	86.9	456.9	571.2
Trade and other payables	535.5	1.8	4.9	73.7	615.9
	565.5	28.5	220.5	2,666.5	3,481.0

Group - 2013	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets:					
Cash and cash equivalents	157.4	-	-	-	157.4
Trade and other receivables	454.0	-	-	-	454.0
	611.4	-	-	-	611.4
Liabilities:					
Bonds	0.6	0.7	1.8	1,944.3	1,947.4
KfW Bank loan	-	-	35.0	-	35.0
European Investment Bank loans	13.5	15.9	53.5	128.1	211.0
Local authority loans	0.3	0.3	0.5	0.2	1.3
Finance lease obligations	14.3	43.3	83.8	474.9	616.3
Trade and other payables	505.3	1.8	4.7	61.2	150.9
	571.3	59.6	173.7	2,616.7	3,420.5

The minimum lease payments under finance leases fall due as follows:

	2014 £m	2013 £m
Gross finance lease liabilities		
Within one year	18.9	21.1
Between two and five years	123.4	153.9
After five years	514.2	542.4
	656.5	717.4
Future interest	(85.3)	(101.1)
Net finance lease liabilities	571.2	616.3
Net finance lease liabilities are repayable as follows:		
Within one year (note 14)	13.2	14.3
Between two and five years	101.1	127.1
After five years	456.9	474.9
Total over one year (note 14)	558.0	602.0

c) Fair values

The fair values of the group's derivative financial instruments are set out in note 14. The following table summarises the fair value and book value of the group's bonds.

	2014		2013	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Bonds (note 14)	1,985.3	2,168.9	1,947.4	2,498.7

The fair values of all other financial instruments are equal to the book values.

d) Borrowing facilities

As at 31 March 2014, the group had available undrawn committed borrowing facilities of £140m expiring as set out below, in respect of which all conditions precedent had been met (2013: £215m).

	2014 £m	2013 £m
Expiring in less than 1 year:		
- term loan facility	-	75
- revolving credit facilities	30	-
Expiring in more than 1 year:		
- revolving credit facilities	110	140
	140	215

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

On 16 December 2013 the group drew the remaining £75m loan facility with European Investment Bank facility.

The group has £140 million of revolving credit facilities, of which £30 million of which will expire in May 2014. £20 million is available to be drawn until May 2016 and £90m is available until May 2017.

At 31 March 2014, Dŵr Cymru (Financing) Limited also had a special liquidity facility of £135m (2013: £135m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

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

e) Capital risk management**Gearing ratios**

	2014 £m	2013 £m
Total borrowings	(2,909)	(2,895)
Less: cash and cash equivalents	94	157
Net debt	(2,815)	(2,738)
Regulatory capital value (RCV)	4,468	4,344
Total capital	1,653	1,606
Less: unamortised bond costs	(5)	(6)
Total capital per bond covenants	1,648	1,600
Gearing ratio	63%	63%

As set out on page 96, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt to the Ofwat-determined RCV.

16. PROVISIONS

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Other provisions £m	Total £m
At 1 April 2013	7.0	2.1	7.2	4.3	20.6
Charged to income statement	-	0.1	1.0	0.2	1.3
Utilised in year	(3.9)	-	(1.6)	(1.5)	(7.0)
At 31 March 2014	3.1	2.2	6.6	3.0	14.9
Split as:					
Amounts to be utilised within one year	3.1	-	-	1.5	4.6
Amounts to be utilised after more than one year	-	2.2	6.6	1.5	10.3
At 31 March 2014	3.1	2.2	6.6	3.0	14.9

The parent company has no provisions at 31 March 2014 (2013: £nil).

Restructuring provision

This provides for the costs of terminating the outsourced contracts with United Utilities Operational Services and Kelda Water Services in the year to 31 March 2011 along with the estimated restructuring costs associated with a reduction in the headcount by some 300.

Dilapidations provision

This provision relates to estimated dilapidation costs, which will be incurred over the next five years.

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 provisions

Other provisions are made for certain other obligations which arise during the ordinary course of the group's business.

17 NET CASH INFLOW FROM OPERATING ACTIVITIES

a) Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2014 £m	Group 2013 £m
Operating profit	204.6	183.3
Adjustments for:		
- Depreciation and amortisation	163.7	158.7
- Changes in working capital:		
Increase in trade and other receivables	(0.5)	(18.8)
Increase in inventory	(0.7)	(0.7)
(Decrease)/Increase in trade and other payables	(3.2)	1.7
Pension contributions (above)/below service cost	(10.0)	1.6
(Decrease)/increase in provisions	(2.1)	0.2
	(16.5)	(16.0)
Cash generated from operations	351.8	326.0

b) Interest paid

	Group	
	2014 £m	2013 £m
Interest payable per income statement	160.6	141.3
Less non-cash items:		
- Indexation on index-linked bonds	(38.5)	(38.9)
- Amortisation of bond issue costs	(0.3)	(0.3)
- Interest charge on pension scheme liabilities	(1.3)	(1.5)
- Amortisation of bond issue premium	0.6	0.6
- Effect of capitalisation under IAS 23	7.9	6.5
- Accounting profit on lease termination	-	14.4
- Decrease in accruals	45.7	2.4
	14.1	(16.8)
Interest paid	174.7	124.5

18 ANALYSIS AND RECONCILIATION OF NET DEBT**a) Net debt at the balance sheet date may be analysed as:**

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Cash and cash equivalents	94.4	157.4	0.1	0.1
Debt due after one year	(2,272.1)	(2,174.7)	-	-
Debt due within one year	(16.5)	(14.1)	-	-
Finance leases	(571.2)	(616.3)	-	-
Accrued interest	(50.1)	(89.8)	-	-
	(2,909.9)	(2,894.9)	-	-
Net (debt)/cash	(2,815.5)	(2,737.5)	0.1	0.1

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

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Net (debt)/cash at start of year	(2,737.5)	(2,689.6)	0.1	0.1
Movement in net cash	(63.0)	(143.1)	-	-
Movement in debt arising from cash flows	(21.9)	117.4	-	-
Movement in net debt arising from cash flows	(84.9)	(25.7)	-	-
Movement in accrued interest	39.7	2.4	-	-
Indexation of index-linked debt	(38.5)	(38.9)	-	-
Accounting profit on lease termination	-	14.4	-	-
Other non-cash movements	5.7	(0.1)	-	-
Movement in net debt during the year	(78.0)	(47.9)	-	-
Net (debt)/cash at end of year	(2,815.5)	(2,737.5)	0.1	0.1

19 EMPLOYEES AND DIRECTORS

Staff costs for the group during the year

	2014	As restated 2013
	£m	£m
Wages and salaries	98.0	82.5
Social security costs	8.1	7.0
Other pension costs	7.6	14.7
	113.7	104.2

Of the above, £43.5m (2013: £35.9m) has been capitalised.

	2014	2013
	Number	Number
Average monthly number of people employed by the group (including Executive Directors)		
Regulated water and sewerage activities	2,871	2,617

20 PENSION COMMITMENTS

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

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

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2013 by Joanne Eynon of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated as at 31 March 2014 and the principal assumptions made by the actuaries were:

	2014	2013
Discount rate	4.4%	4.5%
Inflation assumption	3.4%	3.2%
Rate of increase in pensionable salaries	2.3%	3.2%
Rate of increase in pensions in payment	3.2%	3.1%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	87.1 years	86.9 years
- Current pensioners aged 65 - females	89.3 years	89.6 years
- Future pensioners aged 65 (currently aged 45) - males	88.4 years	89.8 years
- Future pensioners aged 65 (currently aged 45) - females	90.8 years	92.5 years

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

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

	2014		2013	
	Expected return	% of total assets	Expected return	% of total assets
Equities	6.5%	54.6%	6.5%	54.8%
Bonds	5.0%	32.2%	5.0%	28.6%
Other	3.0%	2.5%	3.0%	6.0%

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

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April 2012 (restated)	272.8	(240.8)	32.0
Current service cost	11.1	-	11.1
Interest expense/income	14.1	(12.5)	1.6
Past service cost	2.3	2.3	4.6
Expenses	-	0.4	0.4
	27.5	(9.8)	17.7
Remeasurements			
Gain from change in demographic assumptions	(5.1)	-	(5.1)
(Gain)/loss from change in financial assumptions	20.8	(20.7)	0.1
Experience (gains)/loss	-	-	-
	15.7	(20.7)	(5.0)
Contributions		(11.7)	(11.7)
Benefits paid	(6.4)	6.4	-
Bulk transfer	13.7	(14.6)	(0.9)
	7.3	(19.9)	(12.6)
At 31 March 2013 (restated)	323.3	(291.2)	32.1

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

	2014 £m	2013 £m
Present value of funded obligations	(320.1)	(323.3)
Fair value of plan assets	318.9	291.2
	(1.2)	(32.1)
EFRBS unfunded liability	(1.6)	(0.7)
Net liability recognised in the Balance Sheet	(2.8)	(32.8)

	2014	2013	2012	2011	2010
Experience adjustments arising on scheme assets:					
Amount (£m)	(2.9)	17.9	(9.5)	(8.2)	10.0
Percentage of scheme assets	(3%)	(6%)	(4%)	(4%)	21%
Experience adjustments arising on scheme liabilities:					
Amount (£m)	(5.1)	(15.7)	(16.4)	3.6	11.5
Percentage of the present value of scheme liabilities	(5%)	(5%)	(6%)	2%	21%
Present value of scheme liabilities (£m)	320.0	323.3	272.8	238.4	54.8
Fair value of scheme assets (£m)	318.8	291.1	240.7	222.9	46.8
Deficit (£m)	(1.2)	(32.1)	(31.9)	(15.5)	(8.0)

The contributions paid in the year to 31 March 2014 include special contributions of £1.2m (2013: £0.5m). A further £3.5m was paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2013: £0.9m) The special contributions expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2015 amounts to £1.4m.

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

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

21 IMPACT OF CHANGE IN ACCOUNTING POLICY

Adoption of IAS 19 (revised 2011)

The revised employee benefit standard introduces changes to recognition, measurement, presentation and disclosure of post-employment benefits. The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognising an expected return on plan assets.

The effects of the changes in accounting policy is shown in the following tables.

Impact of change on change in accounting policy on the consolidated income statement

	March 2014	Adopt IAS 19 (revised 2011)	March 2014 as presented	March 2013	Adopt IAS 19 (revised 2011)	March 2013 as presented
Revenue	736.5		736.5	716.4		716.4
Operating costs	(526.9)	(5.0)	(531.9)	(533.1)	(2.7)	(535.8)
Operating profit	209.6		204.6	183.3	(2.7)	180.6
Financing costs	(60.1)		(60.1)	(195.5)		(195.5)
Profit/(loss) before tax	149.5	(5.0)	144.5	(12.2)	(2.7)	(14.9)
Taxation	10.8		10.8	13.8		13.8
Profit for the year	160.3	(5.0)	155.3	1.6	(2.7)	(1.1)

Impact of change on change in accounting policy on the consolidated statement of comprehensive income

	March 2014	Adopt IAS 19 (revised 2011)	March 2014 as presented	March 2013	Adopt IAS 19 (revised 2011)	March 2013 as presented
Profit for the year	160.3	(5.0)	155.3	1.6	(2.7)	(1.1)
Actuarial gain/(loss) in pension scheme	19.9	5.0	24.9	2.3	2.7	5.0
Movement on deferred tax	(5.8)		(5.8)	(0.9)	-	(0.9)
Total comprehensive income	174.4	-	174.4	3.0	-	3.0

22 CAPITAL AND OTHER FINANCIAL COMMITMENTS

The group's business plan at 31 March 2014 shows net capital expenditure and infrastructure renewals expenditure of £330m (2013: £313m) during the next financial year. While only a portion of this amount has been formally contracted for, the group is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

23 RELATED PARTY TRANSACTIONS

In accordance with the exemption afforded by IAS 24 there is no disclosure in the consolidated financial statements of transactions with entities that are part of the Glas Cymru Cyfyngedig group. The parent company has not entered into transactions with any other group company during the year (2013: none).

24 STATUS OF THE COMPANY

The company is limited by guarantee and does not have any share capital. In the event of the company being wound up, the liability of the members is limited to £1 each.

25 ELAN VALLEY TRUST FUND

In 1984 Welsh Water 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 £31.7m, 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 Welsh Water Authority, whilst preserving the capital value of the fund in real terms. Welsh Water 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 2014 the market value of the trust fund was £103m (2013: £112m).

Interest receivable includes £5.6m (2013 £4.6m) in respect of distributions from the Elan Valley Trust Fund.

26 CONTINGENT LIABILITIES

There were no contingent liabilities other than those arising from in ordinary course of the group's business and on these no material losses are anticipated.