

Registered N<sup>o</sup>: 2366777

## Dŵr Cymru Cyfyngedig

Directors' report and financial statements  
for the year ended 31 March 2009

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COMPANIES HOUSE

Registered office  
Pentwyn Road  
Nelson  
Treharris  
Mid Glamorgan  
CF46 6LY

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## **Foreword**

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These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2009. The company's immediate parent company is Dŵr Cymru (Holdings) Limited. The entire share capital of Dŵr Cymru (Holdings) Limited is owned by Glas Cymru (Securities) Cyfyngedig. The ultimate holding company and controlling party is Glas Cymru Cyfyngedig, a company registered in England and Wales.

Full details and analysis of the operational performance of Dŵr Cymru during the year to 31 March 2009 is included in the published report and accounts for Glas Cymru Cyfyngedig.

## **Directors and advisors**

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### **Directors**

Lord Burns  
Nigel Annett  
Chris Jones  
Peter Perry  
John Bryant  
Geraint Talfan Davies  
Dame Deidre Hine  
Tony Hobson  
James Strachan  
Robert Ayling

Chairman  
Managing Director  
Finance Director  
Operations Director  
Non-executive Director  
Non-executive Director  
Non-executive Director  
Non-executive Director  
Non-executive Director  
Non-executive Director (appointed 3 April 2008)

### **Company Secretary**

Richard Curtis

### **Auditors**

PricewaterhouseCoopers LLP  
Cardiff

### **Solicitors**

Linklaters LLP  
London

Edwards Geldard  
Cardiff

### **Principal bankers**

National Westminster Bank Plc  
Brecon

## Directors' report

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The directors have pleasure in presenting their annual report to the shareholders, together with the audited financial statements for the year ended 31 March 2009 on pages 9 to 41.

### Principal activity

The principal activity of the company is the supply of water and the treatment and disposal of waste water under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

### Financial results

Welsh Water's turnover in the year to 31 March 2009 was £657 million (2008: £623 million) – an increase of 5.5%. The increase primarily reflects the price increase of 7.6% in the year as well as variances due to customers switching to metered charging and changes in consumption. The effect of 'customer dividends' in the year was that turnover was some £27 million (2008: £27 million) below the level that would have resulted from the full price control allowed by Ofwat. The rate of voluntary customer switching to metered charging in the year rose somewhat to nearly 22,000 customers (2008: 17,500 customers), whilst some 9,000 new customers (2008: 10,000 customers) were added during the year, all of whom are metered.

The net interest charge for the year was £164 million (2008: £188 million, including the £33m swap termination payment made in April 2007) and the average cost of net debt during the period was 6.5% (2008: 6.4%). In addition, a non-cash charge of £64 million was made to the income statement for the movement in the fair value of derivative financial instruments (2008: £24 million).

Loss after tax was £88 million (2008: £9 million). This loss was made after funding the 'customer dividend' of £21 for customers receiving both water and wastewater services. The Board of Welsh Water has decided to increase the 'customer dividend' for 2009-10 to £22.

The tax charge for the period was £15 million (2008: credit of £32 million), entirely comprising a deferred tax charge.

### Directors and Employees

The directors who held office during the year are listed on page 1.

At 31 March 2009 Welsh Water employed 192 people.

A key part in delivering continuous improvement in the performance of the business and the level of service received by Welsh Water's customers is our ongoing investment in our people at all levels. We are committed to equality of opportunity and aim to treat all employees fairly in every aspect of employment, including recruitment, training, career development and promotion. Those who seek employment with Welsh Water are considered solely on their skills and abilities.

We believe all employees should have the opportunity to maximise their potential and individual training and development needs are assessed as part of an annual development review that applies to all our employees.

Welsh Water's outsourced procurement strategy has fundamentally changed the manner in which services have been delivered to customers since 2001 and has made a major contribution to improved levels of customer service in the last five years. This has been achieved, in large part, by the development of operational 'alliances' through which contract partners are encouraged to work with Welsh Water in a 'one-team' approach in the delivery of Welsh Water's business plan.

## Directors' report cont'd

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The success of the business is delivered through our employees, and it is important that they share in this success. We do this through a staff incentive scheme, which pays an annual bonus directly linked to the financial performance and customer service performance of the business (as measured by Ofwat's 'Overall Performance Assessment').

### Health and safety

Welsh Water's process of health and safety management achieved accreditation to the OHSAS-18001 standard during the year. The performance of Welsh Water and its contract partners in 2008-09 and our current challenges and goals are described in our 2009 Health and Safety Report. A copy of this report is available on request.

### Research and development

The company continues to monitor and selectively participate in water industry initiatives, most notably through membership of UK Water Industry Research Limited. Through this, and by continuing to benefit from a sharing of best practice from the R&D investment and initiatives by our outsourced contract partners, we aim to maintain our achievements in improving operational efficiency, and to ensure continued compliance with appropriate national and international standards for potable water, sewage effluent and sludge treatment.

### Payment policy

Our policy is to agree payment terms at the start of a relationship with a supplier, which will only be changed by agreement. Payment will be made in accordance with agreed terms, save where we advise suppliers when an invoice is contested, which we will do without unreasonable delay. We will seek to remedy disputes as promptly as possible. Standard payment terms to suppliers of goods and services will be 30 days from date of receipt of a correct invoice for satisfactory goods or services which have been ordered or received, unless other terms are agreed in a contract.

In 2008-09, the average payment period was 49 days (2008: 53 days). Regulations require that in calculating this we include within trade creditors monies retained under contract in respect of capital investment projects. This level of retentions varies from year to year and adversely affects the average payment period for the year.

### Dividend

During the year, the company has not paid an ordinary dividend (2008: £nil).

### Donations

During the year, charitable donations amounted to £44,212 (2008: £18,559) as shown below:

Beneficiary	£
Water Aid	9,756
Keep Wales Tidy	11,500
Crimestoppers	750
Wales Quality Award	11,163
Ty Hafan	800
Enable	900
Community grants	1,000
Hereford Museum	5,000
Other	3,343
	<u>44,212</u>

It is company policy not to make donations to political parties or to incur political expenditure, and during 2008-09 no donations or payments (in cash or kind) have been made which are required to be disclosed under the Political Parties, Elections and Referendums Act 2000.

## **Directors' report cont'd**

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### **Welsh Language Scheme**

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

### **Regulatory accounts**

Condition F of the Instrument of Appointment, under which Dŵr Cymru Cyfyngedig operates, requires that Dŵr Cymru Cyfyngedig publish additional financial information as an 'appointed business'. A copy of this information will be published on Dŵr Cymru Cyfyngedig's website or will otherwise be available on request from the Company Secretary after 15 July 2009.

### **Auditors**

PricewaterhouseCoopers LLP acted as auditors to Dŵr Cymru Cyfyngedig for the accounts for the year ended 31 March 2009. As part of the audit process each director has confirmed, as at the date of the financial statements, that as far as the director is aware (a) there is no relevant audit information of which the company's auditors are unaware, and (b) they have taken steps to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

PricewaterhouseCoopers LLP have expressed their willingness to continue as auditors and a resolution for their reappointment will be considered at the 2009 annual general meeting.

By order of the Board



**R G Curtis LLB ACIS**  
Company Secretary

**5 June 2009**

## **Directors' responsibilities for the financial statements**

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The directors are responsible for preparing the Annual Report and the company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare company financial statements for each financial year. They have elected to prepare the company's financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

The company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the company and of the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report that complies with that law and those regulations.

By order of the Board



**R G Curtis LLB ACIS**  
Company Secretary

**5 June 2009**



## **Independent auditors' report to the members of Dŵr Cymru Cyfyngedig**

We have audited the financial statements of Dŵr Cymru Cyfyngedig for the year ended 31 March 2009 which comprise the Income Statement, the Statement of Changes in Shareholder's Equity, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Foreword and the list of Directors and Advisors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

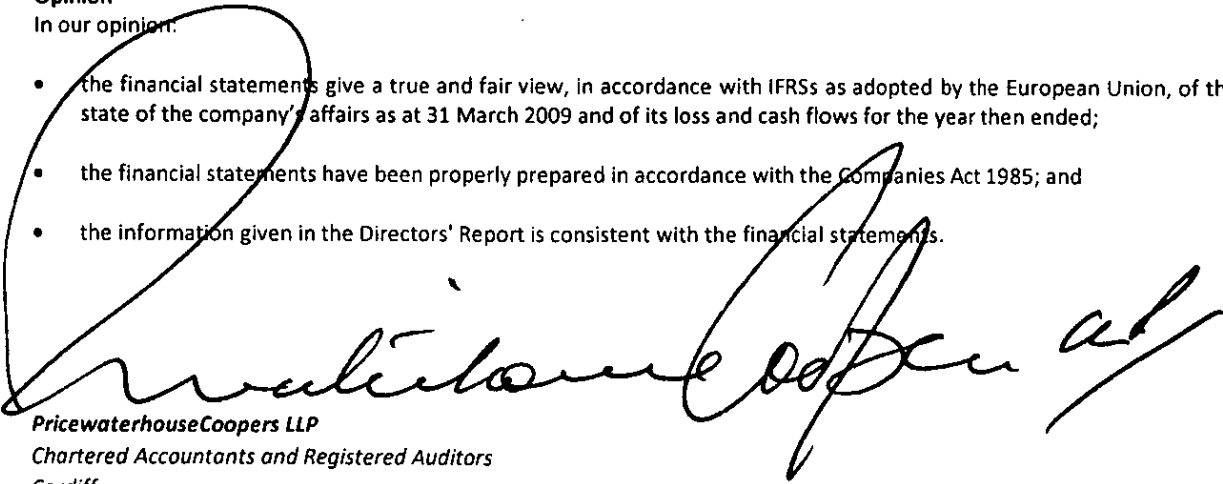
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2009 and of its loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Cardiff

5 June 2009

## Income statement for the year ended 31 March 2009

	Note	£m	2009 £m	As restated 2008 £m
Revenue			657.2	622.9
<b>Operating costs:</b>				
- Operational expenditure	4		(266.8)	(234.2)
- Infrastructure renewals expenditure	4		(101.1)	(97.5)
- Depreciation and amortisation	4		(133.5)	(122.3)
- (Loss)/profit on disposal of fixed assets	4		(0.8)	0.8
<b>Operating profit</b>			<u>155.0</u>	<u>169.7</u>
<b>Financing costs:</b>				
- Interest payable and similar charges	3a	(174.6)		(199.6)
- Interest receivable	3a	8.6		12.2
- Fair value losses on derivative financial instruments	3b	<u>(62.2)</u>		<u>(23.7)</u>
			(228.2)	(211.1)
<b>Loss before taxation</b>	4		(73.2)	(41.4)
Taxation (charge)/credit	5a		(15.2)	32.4
<b>Loss for the year</b>			<u>(88.4)</u>	<u>(9.0)</u>

## Statement of recognised income and expense for the year ended 31 March 2009

	Note	2009 £m	As restated 2008 £m
Loss for the year		(88.4)	(9.0)
Actuarial (loss)/gain recognised in the pension scheme	20	(10.4)	3.3
Movement on deferred tax asset relating to pension scheme	5a	<u>2.9</u>	<u>(1.0)</u>
Net (expense)/income recognised directly in equity		<u>(7.5)</u>	<u>2.3</u>
<b>Total recognised losses for the year</b>		<b><u>(95.9)</u></b>	<b><u>(6.7)</u></b>


## Statement of changes in equity for the year ended 31 March 2009

	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total reserves £m
At 31 March 2007	309.9	166.2	(32.0)	444.1
Net income recognised directly in equity	-	-	2.3	2.3
Loss for the year	-	-	(9.0)	(9.0)
<b>At 31 March 2008</b>	<b><u>309.9</u></b>	<b><u>166.2</u></b>	<b><u>(38.7)</u></b>	<b><u>437.4</u></b>
Net expense recognised directly in equity	-	-	(7.5)	(7.5)
Loss for the year	-	-	(88.4)	(88.4)
<b>At 31 March 2009</b>	<b><u>309.9</u></b>	<b><u>166.2</u></b>	<b><u>(134.6)</u></b>	<b><u>341.5</u></b>

## Balance sheet as at 31 March 2009

	Note	2009 £m	2008 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	2,980.1	2,893.4
Intangible assets	6	46.2	25.1
Investments	8	0.1	0.1
Financial assets:			
- derivative financial instruments	13	-	2.5
Retirement benefit obligations	20	-	2.0
Trade and other receivables	9b	370.5	370.5
		<u>3,396.9</u>	<u>3,293.6</u>
<b>Current assets</b>			
Trade and other receivables	9a	102.3	118.3
Financial assets:			
- derivative financial instruments	13	14.2	2.7
Cash and cash equivalents	10	138.4	123.6
		<u>254.9</u>	<u>244.6</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	11	(133.2)	(127.6)
Financial liabilities:			
- borrowings	12	(20.1)	(25.3)
- derivative financial instruments	13	(0.7)	(1.8)
		<u>(154.0)</u>	<u>(154.7)</u>
<b>Net current assets</b>		<b>100.9</b>	<b>89.9</b>
<b>Non-current liabilities</b>			
Trade and other payables	11	(3.0)	(2.3)
Financial liabilities:			
- borrowings	12	(2,739.8)	(2,623.3)
- derivative financial instruments	13	(92.1)	(19.8)
Retirement benefit obligations	20	(7.8)	-
Provisions	15	(11.6)	(11.0)
		<u>(2,854.3)</u>	<u>(2,656.4)</u>
<b>Net assets before deferred tax</b>		<b>643.5</b>	<b>727.1</b>
Deferred tax - net	5b	(302.0)	(289.7)
<b>Net assets</b>		<b>341.5</b>	<b>437.4</b>
<b>Shareholder's equity</b>			
Called up share capital	16	309.9	309.9
Capital redemption reserve		166.2	166.2
Deficit		(134.6)	(38.7)
<b>Total reserves</b>		<b>341.5</b>	<b>437.4</b>

The financial statements on pages 9 to 39 were approved by the Board of Directors on 5 June 2009 and were signed on its behalf by:

  
**N C Annett**  
 Managing Director

  
**C A Jones**  
 Finance Director

## Cash flow statement for the year ended 31 March 2009

	Note	2009 £m	2008 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	309.0	264.5
Interest received		9.8	11.0
Interest paid		<u>(129.6)</u>	<u>(207.9)</u>
<b>Net cash inflow from operating activities</b>		<u>189.2</u>	<u>67.6</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(257.1)	(191.0)
Grants and contributions received		13.6	17.7
Proceeds from sale of property, plant and equipment		<u>(0.8)</u>	<u>0.8</u>
<b>Net cash used in investing activities</b>		<u>(244.3)</u>	<u>(172.5)</u>
<b>Net cash outflow before financing activities</b>		(55.1)	(104.9)
<b>Cash flows from financing activities</b>			
Finance leases received		60.0	85.0
Net loan received from/(repaid to) group undertaking		20.6	(4.4)
Capital element of finance lease payments		(10.4)	(9.3)
Other loan repayments		<u>(0.3)</u>	<u>(0.3)</u>
<b>Net cash generated from financing activities</b>		<u>69.9</u>	<u>71.0</u>
<b>Increase/(decrease) in net cash</b>	18b	14.8	(33.9)
Net cash at 1 April		123.6	157.5
<b>Net cash at 31 March</b>	10	<u>138.4</u>	<u>123.6</u>

## Principal accounting policies

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### 1. a) Accounting policies, financing risk management and accounting estimates

#### Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 1985 applicable to reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments to fair value in accordance with IFRS and as permitted by the Fair Value Directive as implemented in the amended Companies Act 1985.

In the current year, the company has applied the following Interpretations which are or have become effective:

IFRIC 12	Service Concession Arrangements
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of these Interpretations has no material effect on the preparation or presentation on the results or financial position for the current or prior accounting periods, and accordingly no prior period adjustment has been required.

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

IAS 1	Presentation of Financial Statements (revisions)
IAS 16	Property, Plant and Equipment (revision)
IAS 19	Employee Benefits (revision)
IAS 20	Government Grants and Disclosure of Government Assistance (revision)
IAS 23	Borrowing Costs (revisions)
IAS 27	Consolidated and Separate Financial Statements (revisions)
IAS 28	Investments in Associates (revisions)
IAS 29	Financial Reporting in Hyperinflationary Economies (revision)
IAS 31	Interests in Joint Ventures (revisions)
IAS 32	Financial Instruments: Presentation (revision)
IAS 36	Impairment of Assets (revision)
IAS 38	Intangible Assets (revision)
IFRS 1	First-time Adoption of International Financial Reporting Standards (revision)
IFRS 2	Share-based Payment (revision)
IFRS 3	Business Combinations (revision)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (revision)
IFRS 8	Operating Segments
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners

The application of the revisions to IAS 23 – Borrowing Costs will be required in Dŵr Cymru's financial statements for the year ending 31 March 2010. The revisions remove the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard will require a change to the company's existing policy – it is likely that some borrowing costs which are currently expenses as incurred will need to be capitalised and then amortised over the useful economic lives of the related assets.

The presentational impact of the other standards and interpretations is being assessed, but the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group.

#### Change of accounting policy

The company has changed its accounting policy in respect of its defined benefit pension scheme costs. The defined benefit scheme service cost is included in operating costs and the expected return on scheme assets and interest on scheme liabilities are included in financing costs, while actuarial gains and losses are recognised in full in the consolidated Statement of Recognised Income and Expense (SORIE). Previously, all actuarial movements had been reflected in full in the Income Statement as permitted under IAS 19. The comparative year's Income Statement and SORIE have therefore been restated to reflect this presentational change; there is no impact on the balance sheet.

The impact of this restatement is to reduce the reported profit after tax for the year ended 31 March 2008 by £3.3m, and to reduce the reported loss after tax for the year ended 31 March 2009 by £7.5m.

## Principal accounting policies cont'd

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

#### Basis of consolidation

The company has taken advantage of Section 228(i) of the Companies Act 1985 not to produce consolidated financial statements, as it is a wholly-owned subsidiary of Glas Cymru Cyfyngedig.

#### Accounting policies for the year ended 31 March 2009

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

#### 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 actual charges levied on customers in the year. The difference between the actual revenue and the level of revenue that could have resulted had the full Ofwat allowed level of charges been levied is referred to as a 'customer dividend'.

#### Property, plant and equipment

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

Property, plant and equipment comprise:

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

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

#### Infrastructure assets

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

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

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

## Principal accounting policies cont'd

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

#### 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
Leasehold properties	over the lease period
Operational structures	40 – 80 years
Fixed plant	8 – 40 years
Vehicles, mobile plant, equipment and computer hardware & software	3 – 16 years

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

#### Intangible assets

Intangible assets, which comprise principally computer software and system developments, are included at cost less accumulated depreciation. Cost reflects purchase price together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs but excluding interest.

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 15 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.

#### Asset revaluations

The economic value of the company's water and sewerage business is derived from the regulatory capital value (RCV) set by Ofwat during its five yearly price reviews. Accordingly, the carrying values of the regulatory assets will be revalued periodically to their economic values at five-yearly intervals, starting on 31 March 2010. The previous revaluation of regulatory assets was undertaken at 31 March 2004. This was used as a 'deemed cost' for the group's fixed assets under the transitional rules available on first time adoption of IFRS.

#### Grants and customer contributions

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

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



## Principal accounting policies cont'd

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

#### Capital expenditure programme incentive payments

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

#### Target cost contracts

The company maintains target cost contracts with its main operating partners. The company's policy in respect of pain/gain share receivables/payables arising from these contracts is to recognise gain payables over the period to which the charge relates, and pain receivables as income only when final agreement with the relevant service partner has been achieved.

#### Trade receivables and their impairment

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

#### Cash and cash equivalents

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

#### Pension costs

##### i) Defined benefit scheme

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

The net asset or liability recognised in the balance sheet represents the present value of the defined benefit obligations less the fair value of the plan's assets.

The company's defined benefit scheme service cost, being the increase in the present value of the liabilities expected to arise from employee service in the period, is included in operating costs. The expected return on scheme assets and interest on scheme liabilities are included in financing costs in the income statement. Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the consolidated statement of recognised income and expense.

##### ii) Defined contribution scheme

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

## Principal accounting policies cont'd

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

#### Financial liabilities

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

#### Financial assets

Financial assets represent held to maturity investments that are non-derivative, with fixed or determinable payments and fixed maturities of over three months at the date of acquisition, which the group intends to hold until maturity.

#### Derivative financial instruments

Derivative instruments utilised by the company are interest rate, inflation and currency 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 2009, none of the group's derivatives qualified for hedge accounting under IAS 39 (2008: none). These instruments are carried at fair value with changes in fair value being recognised immediately in the income statement.

#### Deferred taxation

Deferred corporation tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised in respect of all temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable. They are regarded as recoverable where, on the basis of available evidence, there will be suitable taxable profits against which the future reversal of the underlying temporary differences can be deducted. The carrying value of the amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the asset to be utilised.

Deferred corporation tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates that have been substantially enacted at the balance sheet date (2009: 28%, 2008: 28%).

#### Provisions

Provision is made for all known and estimated liabilities of the company where there is a present obligation and it is probable that a transfer of economic benefits will be required to settle the obligation.

In the case of leases, where properties are no longer occupied by the company, provision is made for the liabilities that are expected to arise in respect of rental payments and dilapidations, prior to disposal or termination of the lease.

Where the company receives claims that are either not covered by insurance or where there is an element of the claim for which insurance cover is not available, a provision is made for the expected future liabilities.

## Principal accounting policies cont'd

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### 1. b) Financing risk management objectives and policies

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

#### Credit risk

The company has a prudent policy for investing cash and short term bank deposits ("cash investments"). Counterparties for cash investments must meet minimum short term and/or long term credit ratings as published by Standard & Poor's ("S&P"), Moody's Investor Service Limited ("Moody's") and Fitch Ratings Limited ("Fitch"). The minimum short term rating, for cash deposits of up to one year, is A1/P1/F1 and the minimum long term rating, for cash deposits over one year, is AA-/Aa3/AA- each for S&P, Moody's and Fitch respectively. The Board reviews counterparties for cash investments and the credit limit assigned to each annually.

The company has continued to follow a cautious policy for investing cash deposits as a response to the situation in the banking market. In consequence, with the exception of the group's clearing bank (which has a long-term rating of A+/A3/AA-), all new cash investments must meet the minimum long term rating and have a maximum investment period of one month. The maximum cash investment with a single counterparty was £69.0m (2008: £24.8m).

#### Interest rate and currency risk

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

The company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total group borrowings of £2,760m as at 31 March 2009 (2008: £2,649m), only £156m related to floating rate debt (2008: £162m). The company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2009, 94% (2008: 94%) of the group's gross debt was at fixed or index-linked ("RPI") rates of interest after taking into account interest rate and RPI swaps. The "hedges" established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivatives are reflected in the income statement.

The company minimises exposure to currency risk in respect of any foreign currency denominated borrowings by using appropriate derivative instruments to hedge these liabilities into sterling obligations. There were no foreign currency borrowings as at 31 March 2009 (2008: £nil).

#### 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 currencies, instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,760m can fall due in any 24 month period.

## Principal accounting policies cont'd

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### 1. b) Financing risk management objectives and policies

#### Liquidity risk

We maintain committed banking facilities in order to provide flexibility in the management of the group's liquidity.

Under the Common Terms Agreement which governs the group's obligations to its bond holders and other financial creditors, the group is required to have cash available to fund operations for a duration of 18 months. As at 31 March 2009, the group had committed undrawn borrowing facilities of £420m (2008: £345m) and cash and cash equivalents (excluding debt service payments account) of £124m (2008: £112m).

There is also a special liquidity facility of £150m; this is required in order to meet certain interest and other obligations that cannot be funded through operating cashflow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants.

#### Capital risk management

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

The Board considers that it is in the best long-term interests of Welsh Water's customers to continue to reduce the level of gearing, with a view to achieving further reductions in its cost of finance. The Board intends ultimately to reduce gearing to around 70% and to maintain it at that level, but recognises that the current economic recession will prevent this in the short term.

In respect of the risks detailed above, further quantitative disclosures are provided in note 14.

## Principal accounting policies cont'd

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### 1. c) Critical accounting estimates

The preparation of financial statements which conform to generally accepted accounting principles 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 the cash flows that are expected. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model. The key assumption in the model is the probability of a failure to recover amounts when they fall into arrears. The probability of failing to recover is determined by past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behaviour. To the extent that the failure to recover debts in arrears alters by +/-5%, the provision for impairment would increase or decrease by £5.0 million (2008: £4.3 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 would increase or reduce by £0.7 million (2008: £0.8 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. A 5% change in actual consumption from that estimated would have the effect of increasing/decreasing the accrual by £2.3 million (2008: £2.2 million).

## Notes to the financial statements

### 2. Segmental information

The directors consider that there is only one reporting segment, being the operation of water and sewerage business in the UK; therefore, the disclosures for the primary segment have already been given in these financial statements.

The secondary reporting format is by geographical analysis by origin and destination. As the company has virtually only domestic activities there is only one geographical segment; therefore, the disclosures for the secondary segment have also already been given in these financial statements.

### 3. Financing costs

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

	As restated	
	2009	2008
	£m	£m
Interest payable on loans	(135.3)	(123.6)
Interest payable on finance leases	(36.9)	(46.1)
Net fees payable to group company on swap termination	-	(28.2)
Other interest payable and finance costs	(2.4)	(1.8)
Interest credit on pension scheme liabilities	0.2	0.1
Interest payable	<u>(174.6)</u>	<u>(199.6)</u>
Interest receivable	8.6	12.2
Net interest payable before fair value adjustments	<u>(166.0)</u>	<u>(187.4)</u>

Included within interest payable are amounts payable to group undertakings of £134.9m (2008: £155.0m).

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

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. Consequently, the company's interest rate and currency swaps are fair valued at each balance sheet date with the movement (net loss or gain) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. (See note 13 in respect of derivative financial instruments recognised in the balance sheet.)

	2009	2008
	£m	£m
Fair value losses on interest rate swaps	1.1	(1.8)
Fair value losses on index-linked swaps	<u>(63.3)</u>	<u>(21.9)</u>
Total fair value losses on derivative financial instruments	<u>(62.2)</u>	<u>(23.7)</u>
Deferred tax effect at 28% (2008: 28%) of fair value losses	17.4	6.6
Net of tax impact of fair value losses	<u>(44.8)</u>	<u>(17.1)</u>

## Notes to the financial statements cont'd

### 4. Profit before taxation

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

	As restated	
	2009	2008
	£m	£m
<b>Operating charges from outsourced activities</b>		
- Operating services agreements	138.3	116.1
- Customer services agreement	19.5	19.0
- Laboratories and analytical services	6.7	6.3
- Other contracts	14.2	13.9
	<u>178.7</u>	<u>155.3</u>
<b>Employee costs (note 19)</b>		
- Wages and salaries	10.7	9.2
- Social security	1.0	1.0
- Pension costs (excluding actuarial (loss)/gain)	1.0	1.7
	<u>12.7</u>	<u>11.9</u>
Research and development expenditure	0.5	0.5
Trade receivables impairment	18.8	13.4
Rates	25.5	24.1
Environment Agency charges	14.9	14.3
Fees paid to auditors (see below)	0.2	0.2
Staff costs capitalised	(5.7)	(5.2)
Other operating charges	21.2	19.7
	<u>266.8</u>	<u>234.2</u>
<b>Total operational expenditure</b>		
Infrastructure renewals expenditure	101.1	97.5
<b>Depreciation and amortisation</b>		
- Owned assets	89.1	81.2
- Under finance leases	40.7	40.2
- Amortisation of intangible assets	3.7	0.9
	<u>133.5</u>	<u>122.3</u>
<b>Loss/(profit) on disposal of fixed assets</b>	0.8	(0.8)
	<u>502.2</u>	<u>453.2</u>

## Notes to the financial statements cont'd

### 4. Profit before taxation cont'd

#### Services provided by the company's auditor

During the year the company obtained the following services from the company's auditor as detailed below:

	2009 £'000	2008 £'000
<b>Non-discretionary audit fees</b>		
Statutory audit of parent company and consolidated financial statements	11	11
Statutory audit of subsidiary companies	75	72
<b>Total statutory audit fees</b>	<b>86</b>	<b>83</b>
Review of interim financial statements	21	20
Regulatory audit services pursuant to legislation	33	29
Review of draft business plan (required by Ofwat)	81	-
<b>Total audit fees</b>	<b>221</b>	<b>132</b>
<b>Other services</b>		
Tax advisory services	10	27
Other	2	4
<b>Total other services</b>	<b>12</b>	<b>31</b>
<b>Total cost of services provided by the group's auditor</b>	<b>233</b>	<b>163</b>

Regulatory audit services include work on the Regulatory Accounts, June Return and Principal Statement. In addition to the above services, PricewaterhouseCoopers LLP acted as auditor to the Welsh Water 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 £13,000 (2008: £11,000).

The Board has adopted a formal policy with respect to services received from external auditors. The external auditor 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.

### 5. Taxation

	2009 £m	2008 £m
<b>Current tax</b>		
- Adjustment in respect of prior years	-	1.3
<b>Deferred tax</b>		
- Current year movements	20.7	6.7
- Adjustment in respect of prior years	4.0	2.2
- Effect of tax rate change	-	21.2
- Effect of abolition of Industrial Buildings Allowances	(37.0)	-
<b>Taxation (charge)/credit</b>	<b>(12.3)</b>	<b>31.4</b>
<b>Analysed as:</b>		
(Charge)/credit to Income Statement	(15.2)	32.4
Credit/(charge) to Statement of Recognised Income and Expense	2.9	(1.0)
	<b>(12.3)</b>	<b>31.4</b>

The charge of £37m provides for the phasing out of Industrial Buildings Allowances announced in the 2007 budget.



## Notes to the financial statements cont'd

### 5. Taxation cont'd

The effective rate of tax for the year is lower (2008: lower) than the standard rate of corporation tax in the UK (2009: 28%, 2008: 30%). The differences are explained below:

	2009 £m	2008 £m
Loss before tax	<u>(73.2)</u>	<u>(41.4)</u>
Loss before tax multiplied by the corporation tax rate in the UK of 28% (2008: 30%)	(20.5)	(12.4)
Effect of:		
Adjustments in respect of prior years	(4.0)	(3.6)
Expenses not deductible for tax purposes	(0.2)	0.1
Other permanent differences	2.9	4.2
Effect of tax rate change	-	(20.7)
Effect of abolition of Industrial Buildings Allowances	37.0	-
Movement on deferred tax asset relating to pension scheme	<u>(2.9)</u>	<u>1.0</u>
<b>Total taxation charge/(credit)</b>	<b><u>12.3</u></b>	<b><u>(31.4)</u></b>

#### b) Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%)

The movement in the deferred tax provision is as shown below

	2009 £m	2008 £m
At 1 April	289.7	319.8
Charge/(credit) to Income Statement	15.2	(31.1)
(Credit)/charge to Statement of Recognised Income and Expense	<u>(2.9)</u>	<u>1.0</u>
At 31 March	<b><u>302.0</u></b>	<b><u>289.7</u></b>

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.

	2009 £m	2008 £m
Effect of:		
Tax allowances in excess of depreciation	370.8	319.2
Capital gains rolled over	41.5	46.6
Deferred tax on tax losses carried forward	(80.0)	(65.7)
Deferred tax on losses on derivative financial instruments	(22.6)	(4.6)
Pensions	(2.9)	(1.0)
Other tax differences	<u>(4.8)</u>	<u>(4.8)</u>
<b>Provision for deferred tax</b>	<b><u>302.0</u></b>	<b><u>289.7</u></b>

## Notes to the financial statements cont'd

### 6. Intangible fixed assets

Intangible fixed assets comprise computer software and related system developments.

Current year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2008	76.7	(51.6)	25.1
Additions	24.8	(3.7)	21.1
At 31 March 2009	<u>101.5</u>	<u>(55.3)</u>	<u>46.2</u>

Prior year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2007	57.7	(50.7)	7.0
Additions	19.0	(0.9)	18.1
At 31 March 2008	<u>76.7</u>	<u>(51.6)</u>	<u>25.1</u>

The net book value of intangible assets includes £18.1m in respect of assets in the course of construction (2008: £19.0m).

### 7. Property, plant and equipment

Current year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
<b>Cost</b>					
At 1 April 2008	33.0	1,457.4	2,232.5	222.9	3,945.8
Additions net of grants and contributions	1.4	55.7	151.0	67.4	275.5
Disposals	-	-	-	(64.1)	(64.1)
At 31 March 2009	<u>34.4</u>	<u>1,513.1</u>	<u>2,383.5</u>	<u>226.2</u>	<u>4,157.2</u>
<b>Accumulated depreciation</b>					
At 1 April 2008	16.3	98.8	772.9	164.4	1,052.4
Charge for the year	0.5	32.4	86.5	10.5	129.9
Released on disposal	-	-	-	(5.2)	(5.2)
At 31 March 2009	<u>16.8</u>	<u>131.2</u>	<u>859.4</u>	<u>169.7</u>	<u>1,177.1</u>
<b>Net book value</b>					
At 31 March 2009	<u>17.6</u>	<u>1,381.9</u>	<u>1,524.1</u>	<u>56.5</u>	<u>2,980.1</u>

The net book value of property, plant and equipment includes £160.9m in respect of assets in the course of construction (2008: £158.1m).

## Notes to the financial statements cont'd

### 7. Property, plant and equipment cont'd

Prior year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
<b>Cost</b>					
At 1 April 2007	32.9	1,412.7	2,118.1	218.2	3,781.9
Additions net of grants and contributions	0.1	133.7	114.4	4.7	252.9
Disposals	-	(89.0)	-	-	(89.0)
<b>At 31 March 2008</b>	<b>33.0</b>	<b>1,457.4</b>	<b>2,232.5</b>	<b>222.9</b>	<b>3,945.8</b>
<b>Accumulated depreciation</b>					
At 1 April 2007	15.9	71.2	691.1	156.8	935.0
Charge for the year	0.4	31.6	81.8	7.6	121.4
Released on disposal	-	(4.0)	-	-	(4.0)
<b>At 31 March 2008</b>	<b>16.3</b>	<b>98.8</b>	<b>772.9</b>	<b>164.4</b>	<b>1,052.4</b>
<b>Net book value</b>					
<b>At 31 March 2008</b>	<b>16.7</b>	<b>1,358.6</b>	<b>1,459.6</b>	<b>58.5</b>	<b>2,893.4</b>

#### Assets held under finance leases

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

Current year	Infrastructure assets £m	Operational assets £m	Total £m
<b>Cost</b>			
At 1 April 2008	611.8	598.1	1,209.9
Additions	-	60.0	60.0
<b>At 31 March 2009</b>	<b>611.8</b>	<b>658.1</b>	<b>1,269.9</b>
<b>Accumulated depreciation</b>			
At 1 April 2008	43.9	187.5	231.4
Charge for the year	7.7	33.0	40.7
<b>At 31 March 2009</b>	<b>51.6</b>	<b>220.5</b>	<b>272.1</b>
<b>Net book value</b>			
<b>At 31 March 2009</b>	<b>560.2</b>	<b>437.6</b>	<b>997.8</b>

## Notes to the financial statements cont'd

### 7. Property, plant and equipment cont'd

Prior year	Infrastructure assets £m	Operational assets £m	Total £m
<b>Cost</b>			
At 1 April 2007	526.8	598.1	1,124.9
Additions	85.0	-	85.0
<b>At 31 March 2008</b>	<b>611.8</b>	<b>598.1</b>	<b>1,209.9</b>
<b>Accumulated depreciation</b>			
At 1 April 2007	36.7	154.5	191.2
Charge for the year	7.2	33.0	40.2
<b>At 31 March 2008</b>	<b>43.9</b>	<b>187.5</b>	<b>231.4</b>
<b>Net book value</b>			
<b>At 31 March 2008</b>	<b>567.9</b>	<b>410.6</b>	<b>978.5</b>

### 8. Fixed asset investments

	2009 £m	2008 £m
<b>Cost and net book value</b>		
At 1 April and 31 March	0.1	0.1

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

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

In addition, the company holds 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) plc.

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

	Principal activity	Country of incorporation	Holding
Welsh Water Utilities Finance Plc	Raising finance	England and Wales	100%

## Notes to the financial statements cont'd

### 9. Trade and other receivables

	2009 £m	2008 £m
<b>(a) Amounts falling due within one year:</b>		
Trade receivables	109.4	101.0
Less provision for impairment of receivables	<u>(70.6)</u>	<u>(58.8)</u>
Trade receivables - net	38.8	42.2
Prepayments and accrued income	62.0	62.9
Other receivables	<u>1.5</u>	<u>13.2</u>
	<b>102.3</b>	<b>118.3</b>
<b>(b) Amounts falling due after more than one year:</b>		
Amounts owed by group undertakings	<u>370.5</u>	<u>370.5</u>
	<b>370.5</b>	<b>370.5</b>
<b>Total trade and other receivables</b>	<b><u>472.8</u></b>	<b><u>488.8</u></b>

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

As at 31 March 2009, based on a review of collection rates it was considered that £70.6m of trade receivables were impaired and these have therefore been provided for (2008: £58.8m). The impaired receivables mainly relate to measured and unmeasured water supply debtors.

The ageing of these receivables was as follows:

Current year	Total £m	Provided for £m	Net £m
<b>Trade receivables</b>			
Under one month	10.1	(3.4)	6.7
Between one and six months	18.0	(8.2)	9.8
Between six months and one year	21.4	(7.2)	14.2
Between one and two years	21.9	(16.3)	5.6
Between two and three years	15.9	(13.6)	2.3
Over three years	<u>22.1</u>	<u>(21.9)</u>	<u>0.2</u>
	<b>109.4</b>	<b>(70.6)</b>	<b>38.8</b>
<b>Prior year</b>			
<b>Trade receivables</b>			
Under one month	14.2	(3.4)	10.8
Between one and six months	18.7	(7.1)	11.6
Between six months and one year	17.3	(6.2)	11.1
Between one and two years	20.9	(14.3)	6.6
Between two and three years	13.3	(11.2)	2.1
Over three years	<u>16.6</u>	<u>(16.6)</u>	<u>-</u>
	<b>101.0</b>	<b>(58.8)</b>	<b>42.2</b>

## Notes to the financial statements cont'd

### 9. Trade and other receivables cont'd

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

	2009	2008
	£m	£m
At 1 April	58.8	53.0
Charge to Income Statement	18.1	13.0
Receivables written off during the year as uncollectable	(6.3)	(7.2)
At 31 March	<u>70.6</u>	<u>58.8</u>

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

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

### 10. Cash and cash equivalents

	2009	2008
	£m	£m
Cash at bank and in hand	2.9	2.9
Short-term deposits	<u>135.5</u>	<u>120.7</u>
	<u>138.4</u>	<u>123.6</u>

The effective interest rate on short-term deposits as at 31 March 2009 was 0.6% (2008: 5.5%) and these deposits have an average maturity of 8 days (2008: 13 days). All cash and cash equivalents were held in sterling.

### 11. Trade and other payables

	2009	2008
	£m	£m
<b>Current</b>		
Trade payables	28.2	16.1
Capital payables	53.4	55.6
Amounts due to group undertakings	3.7	3.7
Other taxation and social security	0.4	0.4
Accruals and deferred income	<u>47.5</u>	<u>51.8</u>
	<u>133.2</u>	<u>127.6</u>
<b>Non-current</b>		
Deferred income	<u>3.0</u>	<u>2.3</u>

## Notes to the financial statements cont'd

### 12. Financial liabilities – borrowings

	2009	2008
	£m	£m
<b>Current</b>		
Interest accruals	7.0	12.6
Loans due to group undertakings	4.2	4.4
Other unsecured loans	0.3	0.3
Finance lease obligations	8.6	8.0
	<u>20.1</u>	<u>25.3</u>
<b>Non-current</b>		
Interest accruals	35.0	29.7
Loans due to group undertakings	1,819.0	1,756.5
Other unsecured loans	2.3	2.6
Finance lease obligations	883.5	834.5
	<u>2,739.8</u>	<u>2,623.3</u>

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

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

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

The group's Class A Bonds benefit from a guarantee from MBIA Assurance SA. On 7 April 2008 Fitch Ratings downgraded the ratings of MBIA and, in consequence, the group's Class A Bonds, from AAA to AA. The ratings of the group's Class B and C Bonds were unaffected by this review and remain stable.

### 13. Derivative financial instruments

All derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. As such, movements in their fair values are taken to the income statement (see note 3b).

2009	Fair values	
	Assets	Liabilities
	£m	£m
<b>Current</b>		
Index-linked swaps	14.2	-
Interest rate swaps	-	(0.7)
	<u>14.2</u>	<u>(0.7)</u>
<b>Non-current</b>		
Index-linked swaps	-	(92.1)
Interest rate swaps	-	-
	<u>-</u>	<u>(92.1)</u>
<b>Total</b>	<u>14.2</u>	<u>(92.8)</u>

## Notes to the financial statements cont'd

### 13. Derivative financial instruments cont'd

2008

	Fair values	
	Assets	Liabilities
	£m	£m
<b>Current</b>		
Index-linked swaps	2.7	-
Interest rate swaps	-	(1.8)
	<u>2.7</u>	<u>(1.8)</u>
<b>Non-current</b>		
Index-linked swaps	2.5	(19.8)
	<u>2.5</u>	<u>(19.8)</u>
<b>Total</b>	<u>5.2</u>	<u>(21.6)</u>

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

#### Interest rate swaps

£563m (2008: £571m) of finance lease liabilities have been converted from 3 month to 12 month floating for a period of one year; the swaps expire on 31 March 2010. The marked to market value of these swaps is wholly included in current liabilities.

#### Index-linked swaps

The index-linked swaps have the effect of fixing the interest rate on £617 million (2008: £622 million) of finance lease liabilities by reference to the retail price index ("RPI").

The notional amount of the swaps as at 31 March 2009 is £563 million (2008: £571 million), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2010. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases. These swaps are matched against the same liabilities as the finance lease interest rate swaps noted above.

The principal terms are as follows:

Notional amount:	£563 million (amortising)
Average swap maturity:	24 years
Average interest rate:	1.64% (fixed) plus RPI

### 14. Financial risk management

The policies of the company in respect of financial risk management are included in the accounting policies note on page 17. 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:

	2009	2008
<b>Assets:</b>		
Cash and cash equivalents	0.6%	5.5%
Amounts owed by group undertakings	12.0%	12.0%
<b>Liabilities:</b>		
Inter-company loans	5.3%	5.5%
Other unsecured loans	5.3%	5.8%
Finance lease obligations	5.3%	5.6%

Trade and other receivables and payables are non interest bearing.

Interest due on the intercompany loan of £44.6m (2008: £44.6m) has been waived by the company during the year.

The effective interest rates ignore the effect of the index-linked swaps set out in note 13.



## Notes to the financial statements cont'd

### 14. Financial risk management cont'd

#### b) Liquidity risk

2009	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
<b>Assets:</b>					
Cash and cash equivalents	138.4	-	-	-	138.4
Trade and other receivables	102.3	-	-	-	102.3
	<u>240.7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240.7</u>
<b>Liabilities:</b>					
Inter-company loan	4.2	133.8	40.0	1,645.2	1,823.2
Other unsecured loans	0.3	0.3	1.0	1.0	2.6
Finance lease obligations	8.6	9.9	51.1	822.5	892.1
Trade and other payables	133.2	0.3	0.3	1.4	135.2
	<u>146.3</u>	<u>144.3</u>	<u>92.4</u>	<u>2,470.1</u>	<u>2,853.1</u>
<b>2008</b>	<b>Within 1 year £m</b>	<b>1 - 2 years £m</b>	<b>2 - 5 years £m</b>	<b>&gt; 5 years £m</b>	<b>Total £m</b>
<b>Assets:</b>					
Cash and cash equivalents	123.6	-	-	-	123.6
Trade and other receivables	118.3	-	-	-	118.3
	<u>241.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241.9</u>
<b>Liabilities:</b>					
Inter-company loan	4.4	4.4	160.9	1,591.2	1,760.9
Other unsecured loans	0.3	0.3	1.0	1.3	2.9
Finance lease obligations	8.0	7.0	33.1	794.4	842.5
Trade and other payables	127.6	0.3	0.3	1.7	129.9
	<u>140.3</u>	<u>12.0</u>	<u>195.3</u>	<u>2,388.6</u>	<u>2,736.2</u>

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

	2009 £m	2008 £m
<b>Gross finance lease liabilities</b>		
Within one year	30.9	55.8
Between two and five years	175.9	205.3
After five years	<u>1,165.5</u>	<u>1,388.2</u>
	<u>1,372.3</u>	<u>1,649.3</u>
Future interest	<u>(480.2)</u>	<u>(806.8)</u>
<b>Net finance lease liabilities</b>	<u>892.1</u>	<u>842.5</u>
<b>Net finance lease liabilities are repayable as follows:</b>		
Within one year (note 12)	<u>8.6</u>	<u>8.0</u>
Between two and five years	61.1	40.1
After five years	<u>822.4</u>	<u>794.4</u>
<b>Total over one year (note 12)</b>	<u>892.1</u>	<u>842.5</u>

## Notes to the financial statements cont'd

### 14. Financial risk management cont'd

#### c) Fair values

The fair values of the company's derivative financial instruments are set out in note 13. The fair value of the intercompany loan is £1,768.2m (2008: £1,908.9m). The fair value of the company's other non-derivative financial instruments are equal to the book values.

#### d) Borrowing facilities

As at 31 March 2009, there were committed facilities for operating cash within the group of £420 million (2008: £345m) expiring in more than one year. These comprised a revolving credit facility of £345 million (2008: £345 million) and undrawn European Investment Bank loan of £75 million (2008: £nil) in respect of which all conditions precedent had been met.

A fellow subsidiary, Dŵr Cymru (Financing) Limited also has a special liquidity facility of £150 million, 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 arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. Dŵr Cymru Cyfyngedig also has a £20 million overdraft facility. Both of these facilities are renewable on an annual basis.

All of the above facilities, including the liquidity facility, are at floating rates of interest.

#### e) Capital risk management

##### Gearing ratios (group)

	2009 £m	2008 £m
Total borrowings	(2,759)	(2,649)
Less: cash and cash equivalents	139	124
Net debt	(2,620)	(2,525)
RCV	3,626	3,529
Total capital	1,006	1,004
Less: unamortised bond costs	(5)	(6)
Total capital per bond covenants	1,001	998
Gearing ratio	72%	72%

As set out on page 18, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV. The decrease in the gearing ratio during the year to 31 March 2008 is the result of increases in the RCV exceeding the rise in net debt.

### 15. Provisions

	Restructuring provision £m	Uninsured loss provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2008	1.2	7.2	2.6	11.0
Charged to income statement	0.2	2.6	-	2.8
Utilised in year	-	(2.0)	(0.2)	(2.2)
At 31 March 2009	1.4	7.8	2.4	11.6

**Restructuring provision** - this provision is in respect of payments to be made relating to estimated dilapidation costs, which will be utilised over the next three years.

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

## Notes to the financial statements cont'd

### 15. Provisions cont'd

#### Provision for loss on swap closure

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

### 16. Called up share capital

		<u>£m</u>
<b>2009</b>	Authorised: 501,050,000 ordinary shares of £1 each	<u>501.1</u>
		<u>501.1</u>
	Allotted, called up and fully paid: 309,876,374 ordinary shares of £1 each	<u>309.9</u>
		<u>309.9</u>
<b>2008</b>	Authorised: 501,050,000 ordinary shares of £1 each	<u>501.1</u>
		<u>501.1</u>
	Allotted, called up and fully paid: 309,876,374 ordinary shares of £1 each	<u>309.9</u>
		<u>309.9</u>

### 17. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	As restated	
	2009	2008
	£m	£m
Operating profit	155.0	169.7
Adjustments for:		
- Depreciation and amortisation	133.5	122.3
- Loss/(profit) on disposal of fixed assets	0.8	(0.8)
- Changes in working capital:		
Decrease/(increase) in trade and other receivables	11.0	(24.2)
Increase in trade and other payables	8.1	6.1
Pension contributions in excess of operating costs	-	(4.1)
Increase/(decrease) in provisions	0.6	(4.5)
	<u>19.7</u>	<u>(26.7)</u>
<b>Cash generated from operations</b>	<u>309.0</u>	<u>264.5</u>

## Notes to the financial statements cont'd

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### 18. Analysis and reconciliation of net debt

a) Net debt at the balance sheet date may be analysed as:

	2009	2008
	£m	£m
Cash and cash equivalents	138.4	123.6
Debt owed by parent company after one year	<u>370.5</u>	<u>370.5</u>
	508.9	494.1
Debt due after one year	(1,821.3)	(1,759.1)
Debt due within one year	(4.5)	(4.7)
Finance leases	(892.1)	(842.5)
Accrued interest	<u>(42.0)</u>	<u>(42.3)</u>
	(2,759.9)	(2,648.6)
<b>Net debt</b>	<b><u>(2,251.0)</u></b>	<b><u>(2,154.5)</u></b>

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

	2009	2008
	£m	£m
Net debt at start of period	(2,154.5)	(2,059.1)
Increase/(decrease) in net cash	14.8	(33.9)
Increase in debt	<u>(69.9)</u>	<u>(71.0)</u>
<b>Increase in net debt arising from cashflows</b>	<b>(55.1)</b>	<b>(104.9)</b>
Movement in accrued interest	0.3	38.1
Other non-cash movements	<u>(41.7)</u>	<u>(28.6)</u>
Movement in net debt during the period	(96.5)	(95.4)
<b>Net debt at end of period</b>	<b><u>(2,251.0)</u></b>	<b><u>(2,154.5)</u></b>

## Notes to the financial statements cont'd

### 19. Employees and directors

#### a) Directors' emoluments

The combined emoluments of the directors of Dŵr Cymru Cyfyngedig for their services as directors of the company are set out below:

	As restated	
	2009	2008
	£'000	£'000
Salary (including benefits in kind)	995	947
Fees	505	440
	<u>1,500</u>	<u>1,387</u>
Long term incentive plan	<u>211</u>	<u>186</u>
<b>Highest paid director: (2009 and 2008: N C Annett)</b>		
Aggregate emoluments	<u>392</u>	<u>372</u>
Accrued pension under defined benefit scheme	<u>102</u>	<u>89</u>
Long term incentive plan	<u>83</u>	<u>73</u>

Retirement benefits are accruing to three directors (2008 – three) under defined benefit schemes. None of the directors is a member of the defined contribution scheme (2008: none).

- i) The financial statements for the year ended 31 March 2009 include a provision of £333,960 (2008: £315,172) for bonus potentially payable to executive directors for performance in the financial year 2008/09. The final amount to be paid to each director will be determined when Ofwat publishes its Overall Performance Assessment (OPA) results for 2008/09 in the autumn of 2009 and could be higher or lower. An amount of £211,200 (2008: £185,683) has also been provided under the terms of the executive directors' Long Term Incentive Plan.
- ii) The comparatives have been restated to reflect the final performance bonus for 2007/08. The actual performance bonus in respect of 2007/08 was paid in November 2008 following the publication of Ofwat's OPA performance report for 2007/08, and amounted to £521,012 compared to the amount of £500,856 accrued at 31 March 2008. The aggregate emoluments of the highest paid director increased by £7,920 to £372,246 and total directors' emoluments increased by £20,156 to £1,387,064.

#### b) Staff costs during the year

	2009	2008
	£m	£m
Wages and salaries	10.7	9.2
Social security costs	1.0	1.0
Other pension costs	1.0	1.7
	<u>12.7</u>	<u>11.9</u>
<b>Average monthly number of people (including executive directors) employed by the group</b>	<b>2009</b>	<b>2008</b>
	<b>Number</b>	<b>Number</b>
Regulated water and sewerage activities	<u>187</u>	<u>173</u>

Of the above, £5.7 million (2008: £5.2 million) has been charged to capital.

## Notes to the financial statements cont'd

### 20. Pension commitments

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

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

Total pension costs in the year were as follows:

	2009 £'000	2008 £'000
Defined contribution scheme	122	591
Defined benefit scheme - excluding actuarial loss/(gain)	927	1,065
	<b>1,049</b>	<b>1,656</b>
Net actuarial loss/(gain) recognised in year	<b>10,400</b>	<b>(3,339)</b>
	<b>11,449</b>	<b>(1,683)</b>

#### Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2006 by Robert Davies of Quantum Advisory, an independent, professionally qualified actuary, using the attained age method. This valuation was updated at 31 March 2009 and the principal assumptions made by the actuaries were:

	2009	2008
Discount rate	6.2%	6.3%
Inflation assumption	2.7%	3.0%
Rate of increase in pensionable salaries	3.7%	4.0%
Rate of increase in pensions in payment	2.7%	3.0%
Post retirement mortality (life expectancy):		
- Current pensioners aged 65 - males	87.0 years	84.9 years
- Current pensioners aged 65 - females	89.9 years	87.9 years
- Future pensioners aged 65 (currently aged 45) - males	88.1 years	86.1 years
- Future pensioners aged 65 (currently aged 45) - females	90.9 years	89.1 years

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

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

	2009		2008	
	Expected return	% of total assets	Expected return	% of total assets
Equities	8.0%	59.0%	7.0%	59.5%
Bonds	5.0%	39.8%	6.0%	38.5%
Other	3.0%	1.2%	4.5%	2.0%

## Notes to the financial statements cont'd

### 20. Pension commitments cont'd

The amounts recognised in the income statement are as follows:

	2009 £'000	2008 £'000
Current service cost (excluding member contributions)	878	1,074
Past service cost	151	125
Effect of curtailments or settlements	99	-
Total included within staff costs	<u>1,128</u>	<u>1,199</u>
Interest cost	2,353	2,273
Expected return on plan assets	(2,554)	(2,407)
Total included within interest payable and similar charges	<u>(201)</u>	<u>(134)</u>
<b>Total recognised in the Income Statement</b>	<b><u>927</u></b>	<b><u>1,065</u></b>

The amounts recognised in the Statement of Recognised Income and Expense are as follows:

	2009 £'000	2008 £'000
Actuarial loss on plan assets	(9,301)	(4,704)
Actuarial (loss)/gain on defined benefit obligation	<u>(1,099)</u>	<u>8,043</u>
<b>Total recognised in the Statement of Recognised Income and Expense</b>	<b><u>(10,400)</u></b>	<b><u>3,339</u></b>

The amounts recognised in the balance sheet are determined as follows:

	2009 £'000	2008 £'000
Present value of funded obligations	(40,577)	(37,416)
Plus unrecognised prior service costs	526	677
Fair value of plan assets	<u>32,283</u>	<u>38,786</u>
<b>Net (liability)/asset recognised in the balance sheet</b>	<b><u>(7,768)</u></b>	<b><u>2,047</u></b>

Changes in the present value of the defined benefit obligation are as follows:

	2009 £'000	2008 £'000
At 1 April	37,416	41,009
Current service cost (including member contributions)	1,241	1,421
Past service cost - vested benefits	-	125
Past service cost - non vested benefits	-	677
Interest cost	2,353	2,273
Benefits paid (net of transfers in)	(919)	(46)
Settlement	(613)	-
Actuarial loss/(gain)	<u>1,099</u>	<u>(8,043)</u>
At 31 March	<b><u>40,577</u></b>	<b><u>37,416</u></b>

## Notes to the financial statements cont'd

### 20. Pension commitments cont'd

Changes in the fair value of plan assets are as follows:

	2009	2008
	£'000	£'000
At 1 April	38,786	35,520
Expected return on plan assets	2,554	2,407
Contributions (including member contributions)	1,875	5,609
Benefits paid (net of transfers in)	(919)	(46)
Settlement	(712)	-
Actuarial loss on plan assets	(9,301)	(4,704)
At 31 March	<u>32,283</u>	<u>38,786</u>

Analysis of the movement in the balance sheet liability:

	2009	2008
	£'000	£'000
At 1 April	(2,047)	5,489
Total charge to income statement	927	1,065
Total charge/(credit) to statement of recognised income and expense	10,400	(3,339)
Contributions paid (excluding member contributions)	(1,512)	(5,262)
At 31 March	<u>7,768</u>	<u>(2,047)</u>

Cumulative actuarial gains and losses recognised in equity:

	2009	2008	2007	2006	2005
Experience adjustments arising on scheme assets:					
Amount (£m)	(9.3)	(4.7)	(0.2)	3.5	0.9
Percentage of scheme assets	(29%)	(12%)	1%	11%	4%
Experience adjustments arising on scheme liabilities:					
Amount (£m)	(1.1)	8.0	(0.7)	(2.0)	(0.9)
Percentage of the present value of scheme liabilities	(3%)	22%	(2%)	(5%)	(3%)
Present value of scheme liabilities (£m)	40.1	36.8	41.0	37.2	32.4
Fair value of scheme assets (£m)	32.3	38.8	35.5	30.6	24.6
(Deficit)/surplus (£m)	(7.8)	2.0	(5.5)	(6.6)	(7.8)

The contributions paid in the year to 31 March 2009 include a special contribution of £nil (2008: £4.0m). The contribution expected to be paid during the financial year ended 31 March 2010 amounts to £1.5 million.



## Notes to the financial statements cont'd

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### 21. Contingent liabilities

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

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

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

In April 2007, £433m notional of these interest rate swaps were terminated and, under the provisions of the inter-company loan account, the company paid fees to Financing of £32.5m (see note 15, as disclosed net of the release of a provision of £4.3m).

The company remains liable, under the inter-company loan arrangements, for any future cash liabilities under the remaining interest rate swap of £192m (2008: £192m) notional. As at 31 March 2009, the mark to market value of this interest rate swap was £55m (2008: £25m), and the interest rate and maturity of the swap are 5.67% and 22 years (2008: 5.67% and 23 years) respectively.

### 22. Capital and other financial commitments

The company's business plan at 31 March 2009 shows net capital expenditure and infrastructure renewals expenditure of £350m (2008: £320m) during the next financial year. While only a portion of this amount has been formally contracted for, the company is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

### 23. Related party transactions

The company had the following transactions with other companies that are part of the Glas Cymru Cyfyngedig group:

Interest payable on intercompany loans to Dŵr Cymru Financing Limited during the year was £134.8m (2008: £155.0m).

### 24. Immediate and ultimate holding company

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

### 25. Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons existed during the year or were outstanding at the balance sheet date.

## **Notes to the financial statements cont'd**

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### **26. 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 £31.7 million, representing the consideration for the conditional sale, was invested in a trust fund. The principal function of the fund was to provide an income to 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.

Interest receivable includes £2.3m (2008: £2.1m) in respect of distributions from the Elan Valley Trust Fund.