Registered Nº. 2366777

Dŵr Cymru Cyfyngedig

Annual report and financial statements for the year ended 31 March 2011

Registered office
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Foreword

These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2011 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 2011 is included in the published report and accounts for Glas Cymru Cyfyngedig

Directors and advisers

Directors

Robert Ayling	Chairman (appointed 10 July 2010)
Lord Burns	Chairman (resigned 10 July 2010)
Nigel Annett	Managing Director
Chris Jones	Finance Director
Peter Perry	Operations Director
John Bryant	Non-executive Director
Geraint Talfan Davies	Non-executive Director (resigned 31 March 2011)
Dame Deidre Hine	Non-executive Director (resigned 10 July 2010)
Tony Hobson	Non-executive Director
James Strachan	Non-executive Director
Prof Stephen Palmer	Non-executive Director
Menna Richards	Non-executive Director (appointed 26 November 2010)
Anna Walker	Non-executive Director (appointed 3 March 2011)

Company Secretary
Richard Curtis

Independent auditors
PricewaterhouseCoopers LLP
Cardiff

Solicitors
Linklaters LLP
London

Edwards Geldard
Cardiff

Principal bankers
National Westminster Bank Plc
Brecon

Directors' report

The directors have pleasure in presenting their annual report to the shareholder, together with the audited financial statements for the year ended 31 March 2011 on pages 9 to 41

Principal activities

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 2011 was £677 million (2010 £688 million) – a reduction of 1 6% The decrease primarily reflects the price reduction of 1% in the year as well as variances due to customers switching to metered charging and changes in consumption The number of customers switching to metered charging in the year fell somewhat to 14,400 (2010 17,500), whilst some 5,600 new customers (2010 5,500 customers) were added during the year, all of whose supplies are metered

The net interest charge for the year was £175 million (2010 £104 million) and the average cost of net debt during the period was 7 7% (2010 4 6%) In 2010-11, £5 million of borrowing costs have been capitalised in accordance with the revisions to IAS 23, bringing the net interest charge in the income statement down to £169 million In addition, a non-cash gain of £5 million was made to the income statement for the movement in the fair value of derivative financial instruments (2010 loss of £7 million)

Profit after tax was £127 million (2010 profit of £68 million)

The taxation credit for the year of £64 million principally comprises deferred tax and arises from a reduction in the corporation tax rate (£19 million), the impact of finance lease termination (£13 million) and a reassessment of the requirement to provide tax on rollover gains (£37 million) The company has tax trading losses carried forward of approximately £387 million, which it believes should be sufficient to eliminate tax on trading profits in the remainder of the regulatory period ending 31 March 2015, subject to any changes in tax law

Directors and Employees

The directors who held office during the year and up to the date of signing the financial statements are listed on page 1

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

Following the ending of the outsourced contracts for the management of water and wastewater services and some associated activities, at 31 March 2011 Welsh Water employed 1,712 people (2010 205) 84 people left the business during the year, which was the first year of the phased 5-year programme announced last year under which around 300 people will leave the business by a combination of retirement, natural turnover and selective voluntary severance

Our success is dependent upon our having a highly committed and motivated work force During 2010-11 we have worked to engage with employees, to develop the talent and core competence of the business and a new 'Working Together Agreement' that has been adopted for the next five years We have also adopted a new incentive scheme through which all employees can share in the success of the business and receive an annual bonus linked to the financial and customer service performance of Welsh Water

Directors' report cont'd

Occupational health and safety

We are committed to achieving high standards of occupational health and safety and our performance improved in 2010-11, which was a good outcome in a year of significant organisational change A copy of our 2011 Occupational Health and Safety Report is available on request or on our website, www dwrcymru com

Research and development

We keep abreast of research and development by selective 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 developed relationships with university research departments and private companies to undertake investigations into issues that relate to our business objectives and priorities for our operational region

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 2010-11, the average payment period was 55 days (2010 47 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 (2010 £nil)

Donations

During the year, charitable donations amounted to £8,150 (2010 £45,485) as shown below

Beneficiary	**£**
Water Aid	700
Hope House Children's hospice	1,500
Wales Air ambulance	500
CSAW (North Wales) Ltd	500
Llywel Community Council	2,000
Community grants	1,000
Milford Haven Port Authority	1,500
Other	450
	8,150

It is company policy to make no donations to political parties or to incur political expenditure, and during 2010-11 no donations or payments have been made which are required to be disclosed under section 336 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 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 2011

Disclosure of information to auditors

PricewaterhouseCoopers LLP acted as auditors to Dŵr Cymru Cyfyngedig for the accounts for the year ended 31 March 2011 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

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue as auditors and a resolution for their reappointment will be considered at the 2011 annual general meeting

By order of the Board

Richard Curtis LLB ACIS
Company Secretary

8 June 2011

Directors' responsibilities for the financial statements

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 2006 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 2006 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

Richard Curtis LLB ACIS
Company Secretary

8 June 2011

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 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholder's Equity, the Balance Sheet, the Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements
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 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 annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Katherine Finn (Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
8 June 2011

Income statement for the year ended 31 March 2011

Continuing activities	Note	£m	2011 £m	£m	2010 £m
Revenue			676 7		688 2
Operating costs					
- Operational expenditure					
Before exceptional items	3	(264 6)		(265 7)	
Exceptional items	4	-		(29 5)	
			(264 6)		(295 2)
- Infrastructure renewals expenditure	3		(40 0)		(77 3)
- Depreciation and amortisation	3		(144 6)		(139 9)
Operating profit analysed as					
- Operating profit before exceptional items			227 5		205 3
- Exceptional items			-		(29 5)
Operating profit			227 5		175 8
Financing costs					
- Interest payable and similar charges	5a	(173 6)		(101 3)	
- Interest receivable	5a	4 1		3 4	
- Fair value gains/(losses) on derivative financial instruments	5b	5 2		(7 3)	
			(164 3)		(105 2)
Profit before taxation	3		63 2		70 6
Taxation	6		64 0		(3 1)
Profit for the year			127 2		67 5

Statement of comprehensive income for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Profit for the year		**127 2**	67 5
Actuarial loss recognised in the pension scheme	22	**(4 7)**	(1 5)
Movement on deferred tax asset relating to pension scheme	7	**1 2**	-
Total comprehensive income for the year		**123 7**	66 0

Statement of changes in equity for the year ended 31 March 2011

	Called-up share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2009	309 9	166 2	(134 6)	341 5
Total comprehensive income for the year	-	-	66 0	66 0
At 31 March 2010	309 9	166 2	(68 6)	407 5
Total comprehensive income for the year	-	-	123 7	123 7
At 31 March 2011	**309 9**	**166.2**	**55 1**	**531 2**

Registered N° 2366777

Balance sheet as at 31 March 2011

	Note	**2011**	2010
		£m	£m
Assets			
Non-current assets			
Property, plant and equipment	8	**3,178 9**	3,117 8
Intangible assets	9	**65 4**	60 1
Investments	10	**0 1**	0 1
Financial assets			
- derivative financial instruments	15	**2 7**	0 8
Trade and other receivables	11	**370 5**	370 5
		3,617 6	3,549 3
Current assets			
Trade and other receivables	11	**489 2**	484 4
Cash and cash equivalents	12	**97 0**	247 6
		586 2	732 0
Liabilities			
Current liabilities			
Trade and other payables	13	**(510 4)**	(504 9)
Financial liabilities			
- borrowings	14	**(26 8)**	(150 2)
- derivative financial instruments	15	**(34 5)**	(25 7)
Provisions	17	**(17 0)**	(15 0)
		(588 7)	(695 8)
Net current (liabilities)/assets		**(2 5)**	36 2
Non-current liabilities			
Trade and other payables	13	**(33 1)**	(15 9)
Financial liabilities			
- borrowings	14	**(2,733 9)**	(2,761 8)
- derivative financial instruments	15	**(49 0)**	(61 0)
Provisions	17	**(8 4)**	(24 5)
Retirement benefit obligations	22	**(15 5)**	(8 0)
		(2,839 9)	(2,871 2)
Net assets before deferred tax		**775 2**	714 3
Deferred tax - net	7	**(244 0)**	(306 8)
Net assets		**531 2**	407 5
Equity			
Called-up share capital	18	**309 9**	309 9
Capital redemption reserve		**166 2**	166 2
Reserves/(deficit)		**55.1**	(68 6)
Total equity		**531.2**	407 5

The financial statements on pages 9 to 41 were approved by the Board of Directors on 8 June 2011 and were signed on its behalf by

Nigel Annett
Managing Director

Chris Jones
Finance Director

Cash flow statement for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Cash flow from operating activities			
Cash generated from operations	19	**388 2**	330 4
Interest received		**4 1**	3 5
Interest paid		**(143 9)**	(116 1)
Tax receipt		**1 7**	-
Net cash generated from operating activities		**250 1**	217 8
Cash flow from investing activities			
Purchase of property, plant and equipment		**(227 5)**	(281 4)
Grants and contributions received		**14 1**	12 3
Proceeds from/(costs of) sale of property, plant and equipment		**0 1**	(0 4)
Net cash used in investing activities		**(213 3)**	(269 5)
Net cash generated/(used) before financing activities		**36 8**	(51 7)
Cash flows from financing activities			
Loan received from group undertaking		**75.0**	139 3
Loan repaid to group undertaking		**(133 9)**	(4 4)
Net draw down on term loans		**-**	35 0
Capital element of finance lease payments		**(128 2)**	(8 6)
Other loan repayments		**(0 3)**	(0 4)
Net cash (used in)/generated from financing activities		**(187 4)**	160 9
(Decrease)/increase in net cash	20b	**(150 6)**	109 2
Net cash at 1 April		**247 6**	138 4
Net cash at 31 March	12	**97 0**	247 6

Principal accounting policies

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2011

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, except as noted under 'Change of accounting policy '

Basis of Preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and those parts of the Companies Act 2006 applicable to reporting under IFRS The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss

In the current year, Dŵr Cymru has applied the following Interpretations which are or have become effective

IFRS 1	First-time Adoption of International Financial Reporting Standards (revision)
IFRS 1	Additional exemptions (amendment)
IFRS 2	Share-based Payments – Group cash-settled share-based payment transactions (amendment)
IFRS 3	Business Combinations (revision)
IAS 27	Consolidated and Separate Financial Statements (revision)
IAS 31	Interests in Joint Ventures (amendment)
IAS 32	Financial Instruments Presentation on classification of rights issue (revision)
IAS 39	Financial Instruments Recognition and Measurement of eligible hedged items (revision)
IFRIC 17	Distributions of Non Cash Assets to Owners
IFRIC 18	Transfer of assets from customers

Except as noted under "Changes of accounting policy" below in respect of IFRIC 18, the application of these Interpretations has no material effect on the preparation or presentation of 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

IFRS 1	First-time Adoption of International Financial Reporting Standards (amendment)
IFRS 7	Financial Instruments Disclosures (amendment)
IFRS 9	Financial Instruments Classification and Measurement
IAS 12	Income Taxes on deferred tax (amendment)
IAS 24	Related Party Disclosures (revision)
IAS 28	Investments in Associates (revision)
IFRIC 14	IAS 19, 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

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 company

Changes of accounting policy

Following its adoption by the European Union, IFRIC 18, 'Transfers of assets from customers', is mandatory for the first time for the financial year beginning 1 April 2010 with an application date of 1 July 2009 IFRIC 18 is an interpretation published by the IASB to clarify the accounting treatment when a property developer lays a pipe to connect a new development to the network and transfers the asset to the water company for no charge The company's accounts have not previously allocated any value to these transactions as there was no financial outlay Following adoption of the IFRIC, the accounts contain infrastructure asset additions with a value of £18 5m (2010 as restated £14 2m) The net book value of these assets as at 31 March 2011 is £31 7m, which is offset by deferred income of equal amount The fair values, calculated as the cost to the business of constructing the assets, will be depreciated over the assets' estimated useful lives and the deferred income will be released over the same period (The comparative figures for property, plant and equipment and deferred income have been restated by £13 9m, reflecting asset transfers since the IFRIC's effective date of 1 July 2009)

Principal accounting policies cont'd

Accounting policies, financing risk management and accounting estimates cont'd

Consolidation

The company has taken advantage of *Section 400 of the Companies* Act 2006 not to produce consolidated financial statements, as it is a wholly-owned subsidiary of Glas Cymru Cyfyngedig

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' There was no customer dividend in the year to 31 March 2010 (2010 £28 3m)

Segment reporting

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

Property, plant and equipment

Property, plant and equipment 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 and, in respect of capital projects commenced after 1 April 2009, borrowing costs in accordance with IAS 23

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

1 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

Accounting policies, financing risk management and accounting estimates cont'd

2 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
Infrastructure assets	80 years
Operational structures	10 – 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 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 intengible assets when the relevant recognition criteria are met (as per IAS 36) 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

Grants and customer contributions

Grants and customer contributions in respect of expenditure on property, plant and equipment have been offset against these assets Grants in respect of revenue expenditure are credited to the Income Statement over the same period as the related expenditure is incurred

Capital expenditure programme incentive payments

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

Principal accounting policies cont'd

Accounting policies, financing risk management and accounting estimates cont'd

Trade receivables

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

Cash and cash equivalents

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

ii) Defined contribution scheme

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

Financial liabilities

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

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

Accounting policies, financing risk management and accounting estimates cont'd

Financial liabilities cont'd

Derivative instruments utilised by the company are interest rate and inflation swaps Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures 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 2011, none of the group's derivatives qualified for hedge accounting under IAS 39 (2010 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 assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Provisions

Provisions for restructuring costs, dilapidations, uninsured losses and losses on swap closure are recognised when the 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 are 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 oblgiation may be small

Exceptional Items

Exceptional items are those significant items which are disclosed separately by virtue of their size and/or nature to enable a full understanding of the group's financial performance (see note 4)

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 operational risk

Principal accounting policies cont'd

Financing risk management objectives and policies cont'd

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 annually for cash investments and the credit limit assigned to each

The company has continued to follow a cautious policy for investing cash deposits as a response to the situation in the banking market Cash is invested for a maximum period of four months The maximum cash investment with a single counterparty was £142m (2010 £142m)

Interest rate risk

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

The company analyses its interest rate exposure on a dynamic basis Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging Of total group borrowings of £2,761m as at 31 March 2011 (2010 £2,912m), none related to floating rate debt (2010 £30m) The company therefore considers overall interest rate exposure at the balance sheet date to be minimal

As at 31 March 2011, 100% (2010 99%) of the group's gross debt was at fixed or index-linked ("RPI") rates of interest after taking into account interest rate and RPI swaps The "hedges" established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement This has resulted in a net liability of £160 million in the balance sheet at 31 March 2011 (2010 £173 million) but, assuming that the swaps are held to maturity, this will ultimately reduce to nil

Power price hedges

The company has entered 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 60% of the estimated power requirement of the business for the remainder of the regulatory period o 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 within 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, 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 £2,761m (2010 £2,912m) can fall due in any 24 month period

Financing risk management objectives and policies cont'd

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 2011, the group had committed undrawn borrowing facilities of £200m (2010 £420m) and cash and cash equivalents (excluding debt service payments account) of £88m (2010 £238m)

On 17 and 18 May 2011 the group entered into new revolving credit facilities totalling £140m with a group of six banks These facilities are available until May 2016, although each bank has an option (exerciseable by the end of the first year of the facilities) to extend for a further year to May 2017 £100m of the existing borrowing facilities at 31 March 2011 were also cancelled On 13 April 2011, a new special liquidity facility of £135m was entered into with a syndicate of four banks The existing £100m facility was cancelled on this date

As at 31 March 2011, there was 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 maintain the level of gearing to around 70% As at 31 March 2011 gearing was 67%

In respect of the risks detailed above, further quantitative disclosures are provided in note 16

Critical accounting estimates

The preparation of financial statements which conform 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 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 £3 6 million (2010 £3 4 million)

Critical accounting estimates cont'd

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 company 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 2011 would increase or reduce by £4 7 million (2010 £1 1 million) The year-on-year increase in the sensitivity of the balance sheet obligation to changes in the discount rate is the result of former UUOS and KWS employees transferring their existing pensions into the DCWW Pension Scheme (see also note 21)

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 or decreasing the accrual by £2 3 million (2010 £2 3 million)

Notes to the financial statements

2. Segmental information

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

3. Profit before taxation

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

	Total 2011 £m	Total 2010 £m
Operations		
Power	**34 5**	35 6
Chemicals	**8 5**	7 7
Materials and equipment	**2 1**	2 1
Telephones and other IT	**4 0**	3 2
Vehicles and plant	**7.3**	10 6
Office expenses	**2 3**	3 0
Property costs	**7 6**	6 1
Insurances	**5 3**	6 3
Sewerage contractors	**3 4**	4 3
Water costs	**4 8**	4 8
Customer service agreements	**19 8**	18 7
Laboratories and analytical services	**6 9**	6 6
Collection commissions	**3.9**	3 7
IT Contracts	**17 8**	17 0
Other bought in services	**24 6**	25 7
Contract termination costs	**-**	10 8
Restructuring and rationalisation	**-**	10 4
	152 8	176 6
Employee costs (note 21)	**72 0**	13 5
Staff costs capitalised	**(22 3)**	(5 9)
Restructuring and rationalisation	**-**	7 2
Sub contracted staff costs	**1 4**	38 8
	51 1	53 6
Research and development expenditure	**0 5**	0 5
Trade receivables impairment	**22 3**	22 3
Rates	**22 7**	26 9
Environment Agency charges	**15 0**	15 1
Fees payable to auditors	**0 2**	0 2
Total operational expenditure	**264 6**	295 2
Infrastructure renewals expenditure	**40 0**	77 3
Depreciation and amortisation		
- Owned assets	**89 1**	91 2
- Under finance leases	**47.9**	40 6
- Amortisation of intangible assets	**7 7**	7 7
- (Profit)/loss on disposal of property, plant and equipment	**(0 1)**	0 4
	144 6	139 9
	449 2	512 4

3. Profit before taxation cont'd

Services provided by the company's auditors

During the year the company obtained the following services from its auditors as detailed below

	2011 £'000	2010 £'000
Audit fees		
Statutory audit of parent company and consolidated financial statements	11	11
Statutory audit of subsidiary companies	77	77
Total statutory audit fees	88	88
Audit-related fees		
Review of interim financial statements	23	22
Regulatory audit services pursuant to legislation	39	39
Total audit and audit-related fees	150	149
Other services		
Tax advisory services	-	5
Services relating to bond prospectus update and bond issue	-	25
Other	8	10
Total other services	8	40
Total cost of services provided by the group's auditors	158	189

Regulatory audit services include work on the Regulatory Accounts, June Return and Principal Statement In addition to the above services, PricewaterhouseCoopers LLP acted as auditors 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 £12,000] (2010 £11,000)

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. Exceptional items

On 9 February 2010 Dŵr Cymru Cyfyngedig's parent company, Glas Cymru Cyfyngedig, announced its intention to restructure Welsh Water to meet tough efficiency targets set by Ofwat (for further information, see the Operating and Financial Review section of the group's Annual Report – note 26) In the year to 31 March 2010 restructuring costs of £29 5m were considered exceptional by nature and were disclosed separately in note 3 to the financial statements These included the costs of terminating the outsourced contracts along with the estimated restructuring costs associated with a reduction in the headcount by some 300 Contract termination costs included agreed payments in lieu of the profit element for year 6 and early agreement of an adjustment reflecting year 5 performance No adjustments have been made to the provision established at 31 March 2010 and it is not anticipated that any further significant expenditure will be incurred, beyond the amounts provided, in relation to the restructuring of the business

Notes to the financial statements cont'd

5. Financing costs

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

	2011 £m	2010 £m
Interest payable on loans	(148 4)	(86 4)
Interest payable on finance leases (including swaps to RPI)	(28 1)	(18 4)
Net interest credit/(charge) on pension scheme liabilities	0 7	(0 3)
Other interest payable and finance costs	(3 2)	(2 3)
Capitalisation of interest under IAS 23 (note 1a) (2011 6 3%, 2010 3 8%)	5 4	6 1
Interest payable	(173 6)	(101 3)
Interest receivable	4 1	3 4
Net interest payable before fair value adjustments	(169 5)	(97 9)

Included within interest payable are amounts payable to group undertakings of £144 6m (2010 £83 7m)

b) Fair value gains/losses on derivative financial instruments

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39 Consequently, the company's interest rate and currency swaps are fair valued at each balance sheet date with the movement (net 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 15 in respect of derivative financial instruments recognised in the balance sheet)

	2011 £m	2010 £m
Fair value gains on interest rate swaps	0 1	0 2
Fair value gains/(losses) on index-linked swaps	5 1	(7 5)
Total fair value gains/(losses) on *derivative financial instruments*	5 2	(7 3)
Deferred tax effect at 26% (2010 28%) of fair value gains/(losses)	(1 4)	2 0
Net of tax impact of fair value gains/(losses)	3 8	(5 3)

6. Taxation

	2011 £m	2010 £m
Current tax		
- Adjustment in respect of prior years	2 5	1 7
Deferred tax		
- Origination and reversal of timing differences	43 9	(4 8)
- Effect of tax rate change	18 8	-
Total deferred tax (note 7)	62 7	(4 8)
Total taxation credit/(charge)	65 2	(3 1)
Analysed as		
Total credit/(charge) to Income Statement	64.0	(3 1)
Credit to Statement of Comprehensive Income	1 2	-
	65 2	(3 1)

Notes to the financial statements cont'd

6. Taxation cont'd

Tax trading losses carried forward as at 31 March 2011 are circa £387m (2010 £292m)

The effective rate of tax for the year is lower (2010 lower) than the standard rate of corporation tax in the UK (2011 28%, 2010 28%) The differences are explained below

	2011 £m	2010 £m
Profit before tax	63 2	70 6
Profit before tax multiplied by the corporation tax rate in the UK of 28% (2010 28%)	17 7	19 8
Effect of		
Adjustments in respect of prior years	(34 0)	(17 7)
Other permanent differences	(30 1)	1 0
Effect of tax rate change	(18 8)	-
Movement on deferred tax asset relating to pension scheme	-	-
Total taxation (credit)/charge	(65 2)	3 1

The £34m adjustment in respect of prior years includes a £37m credit arising from the reassessment of the requirement to provide deferred tax on rolled over capital gains (the 2010 adjustment relates to the agreement with HMRC of retrospective capital allowance claims)

7. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 26% (2010 28%)

The movement in the deferred tax provision is as shown below

	2011 £m	2010 £m
At 1 April	306 8	302 0
(Credit)/charge to Income Statement	(61 6)	4 8
Credit to Statement of Comprehensive Income	(1 2)	-
At 31 March	244 0	306 8

	2011 £m	2010 £m
Effect of		
Tax allowances in excess of depreciation	372 8	384 4
Capital gains rolled over	4 1	41 5
Deferred tax liability	376 9	425 9
Deferred tax on tax losses carried forward	(100 8)	(82 4)
Deferred tax on losses on derivative financial instruments	(21 0)	(24 0)
Pensions	(4 0)	(2 2)
Other tax differences	(7 1)	(10 5)
Deferred tax asset	(132 9)	(119 1)
Net provision for deferred tax	244 0	306 8

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

8. Property, plant and equipment

Current year	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Cost					
At 1 April 2010 (as restated)	34 4	1,560 2	2,605 6	227 5	4,427 7
Additions net of grants and contributions	0 5	26 6	165 0	7 2	199 3
At 31 March 2011	**34 9**	**1,586 8**	**2,770 6**	**234 7**	**4,627 0**
Accumulated depreciation					
At 1 April 2010 (as restated)	17 3	165 3	942 6	184 7	1,309 9
Charge for the year	-	23 1	94 5	20 6	138 2
At 31 March 2011	**17 3**	**188 4**	**1,037 1**	**205 3**	**1,448 1**
Net book value					
At 31 March 2011	**17 6**	**1,398 4**	**1,733 5**	**29 4**	**3,178 9**

The net book value of property, plant and equipment includes £119 1m in respect of assets in the course of construction (2010 £155 5m)

The net book value of property, plant and equipment includes £10 8 m of borrowing costs capitalised in accordance with IAS 23 (2010 £6 1m), of which £5 4m were additions in the year (2010 £6 1m)

See note 1, 'Change of accounting policy in respect of the restatement of the 2010 balances to reflect the application of IFRIC 18 from its effective date of 1 July 2009

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

Current year	Infrastructure assets £m	Operational structures £m	Total £m
At 31 March 2011			
Cost	**611 8**	**483 9**	**1,095 7**
Accumulated depreciation	**67 0**	**225 4**	**292 4**
Net book value	**544 8**	**258 5**	**803 3**

8. 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
Cost					
At 1 April 2009	34 4	1,513 1	2,383 4	226 2	4,157 1
Additions net of grants and contributions	-	32 9	222 2	1 3	256 4
Restatement on adoption of IFRIC 18	-	14 2	-	-	14 2
	-	47 1	222 2	1 3	270 6
At 31 March 2010	34 4	1,560 2	2,605 6	227 5	4,427 7
Accumulated depreciation					
At 1 April 2009	16 8	131 2	859 4	169 7	1,177 1
Charge for the year	0 5	33 8	83 2	15 0	132 5
Restatement on adoption of IFRIC 18	-	0 3	-	-	0 3
	0 5	34 1	83 2	15 0	132 8
At 31 March 2010	17 3	165 3	942 6	184 7	1,309 9
Net book value					
At 31 March 2010 (as restated)	17 1	1,394 9	1,663 0	42 8	3,117 8
At 31 March 2009	17 6	1,381 9	1,524 0	56 5	2,980 0

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

Prior year	Infrastructure assets £m	Operational assets £m	Total £m
At 31 March 2010			
Cost	611 8	658 1	1,269 9
Accumulated depreciation	59 3	253 4	312 7
Net book value			
At 31 March 2010	552 5	404 7	957 2
At 31 March 2009	560 2	437 6	997 8

Notes to the financial statements cont'd

9. Intangible assets

Current year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2010	116 6	(56 5)	60 1
Additions/(charge for year)	13 0	(7 7)	5 3
At 31 March 2011	129 6	(64 2)	65 4

Prior year	Cost £m	Amortisation £m	Net book value £m
At 1 April 2009	101 5	(55 3)	46 2
Additions/(charge for year)	21 6	(7 7)	13 9
Disposals	(6 5)	6 5	-
At 31 March 2010	116 6	(56 5)	60 1

Intangible fixed assets comprise computer software and related system developments

The net book value of intangible assets includes £3 6m in respect of assets in the course of construction (2010 £34 2m)

The net book value of intangible assets includes £0 4m of borrowing costs capitalised in accordance with IAS 23 (2010 nil) of which £0 4m were additions in the year *(2010 £nil)*

10. Investments

	2011 £m	2010 £m
Cost and net book value		
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%

11. Trade and other receivables

	2011 £m	2010 £m As restated
Current		
Trade receivables	463 1	456 4
Less provision for impairment of receivables	(48 1)	(44 2)
Trade receivables - net	415 0	412 2
Prepayments and accrued income	63.3	62 1
Corporation tax	2 5	1 7
Other receivables	8 4	8 4
	489 2	484 4
Non-current		
Amounts receivable from group undertakings	370 5	370 5
	370 5	370 5
Total trade and other receivables	859 7	854 9

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

As at 31 March 2011, based on a review of collection rates it was considered that £48 1m of trade receivables were impaired and these have therefore been provided for (2010 £44 2m) The impaired receivables mainly relate to measured and unmeasured water supply receivables

The 2010 trade receivables balance has been restated to recognise February 2010 billings in advance for the year to 31 March 2012 separately from the corresponding deferred income, which is now shown within trade payables (accruals and deferred income falling due within one year) The impact is to increase both trade receivables and trade payables by £370 4m, there is no impact on net current assets or net assets Trade receivables aged greater than one month are past due, the net column shows amounts deemed not to be impaired

The ageing of these receivables was as follows

Current year Trade receivables	Total £m	Provided for £m	Net £m
Billings in advance	377 0	-	377 0
Under one month	14 6	(3 1)	11 5
Between one and six months	22 1	(10 5)	11 6
Between six months and one year	19 9	(9.1)	10 8
Between one and two years	18 1	(14 6)	3 5
Between two and three years	11 1	(10 5)	0 6
Over three years	0 3	(0 3)	-
	463 1	(48 1)	415 0

Prior year Trade receivables	Total £m As restated	Provided for £m	Net £m As restated
Billings in advance (restated)	370 4	-	370 4
Under one month	18 4	(3 6)	14 8
Between one and six months	22 6	(10 3)	12 3
Between six months and one year	19 0	(9 2)	9 8
Between one and two years	16 1	(12 0)	4 1
Between two and three years	9 6	(8 8)	0 8
Over three years	0 3	(0 3)	-
	456 4	(44 2)	412 2

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

Notes to the financial statements cont'd

11. Trade and other receivables cont'd

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

	2011 £m	2010 £m
At 1 April	44 2	70 6
Charge to Income Statement	21 5	21 6
Receivables written off during the year as uncollectable	(17 6)	(48 0)
At 31 March	48 1	44 2

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

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

During the year the company has written off £17 6m of debt which had been provided for in full (2010 £48 0m)

12. Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	(21 5)	3 6
Short-term deposits	118 5	244 0
	97 0	247 6

The effective interest rate on short-term deposits as at 31 March 2011 was 0 6% (2010 0 6%) and these deposits have an average maturity of 3 days (2010 9 days) All cash and cash equivalents were held in sterling

Cash at bank and in hand as at 31 March 2011 includes the effect of uncleared cheque and BACS payments

13. Trade and other payables

	2011 £m	2010 £m As restated
Current		
Trade payables	34 4	21 5
Capital payables	31 3	56 5
Amounts due to group undertakings	3 7	3 7
Other taxation and social security	2 4	0 5
Accruals and deferred income	438 6	422 7
	510 4	504 9

	2011 £m	2010 £m As restated
Non-current		
Deferred income	33 1	15 9

See note 1, 'Change of accounting policy' in respect of the restatement of the 2010 balances to reflect the application of IFRIC 18 from its effective date of 1 July 2009, and note 11 in respect of the reclassification of £370 4m advance billing payables

	2010 £m
Accruals and deferred income as originally reported	54 3
Restatement on adoption of IFRIC 18	13 9
Reclassification of advance billing payables	370 4
	438 6

Notes to the financial statements cont'd

14. Financial liabilities – borrowings

Current	2011 £m	2010 £m
Interest accruals	5 0	5 9
Loans due to group undertakings	14 3	134 1
Other unsecured loans	0 3	0 3
Finance lease obligations	7 2	9 9
	26 8	150 2

Non-current	2011 £m	2010 £m
Interest accruals	40 0	38 0
Loans due to group undertakings	1,922 7	1,813 3
Term loan (KfW)	35 0	35 0
Other unsecured loans	1 6	1 9
Finance lease obligations	734 6	873 6
	2,733 9	2,761 8

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

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

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

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

The group's Class A Bonds 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

15. Derivative financial instruments

All derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39 and movements in their fair values are taken to the income statement (see note 5b) The fair values of all derivative financial instruments held by the company 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

2011	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(34 1)
Interest rate swaps	-	(0 4)
	-	(34 5)
Non-current		
Index-linked swaps	2 7	(49 0)
Interest rate swaps	-	-
	2 7	(49 0)
Total	2 7	(83 5)

15. Derivative financial instruments cont'd

2010	Fair values Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(22 9)
Interest rate swaps	-	(2 8)
	-	(25 7)
Non-current		
Index-linked swaps	-	(61 0)
Interest rate swaps	0 8	-
	0 8	(61 0)
Total	0 8	(86 7)

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

Interest rate swaps

£428m (2010 £534m) 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 2012 The marked to market value of these swaps is wholly included in current liabilities These swaps are matched against the same liabilities as £428m (2010 £534m) of the finance lease index-linked swaps noted below

£52m (2010 £56m) of finance lease liabilities have been swapped from a floating to a fixed rate of 3 567% until 31 March 2017 The notional amount of the swap is £52m (2010 £54m)

Index-linked swaps

The index-linked swaps have the effect of fixing the interest rate on £553m (2010 £692m) of finance lease liabilities by reference to the retail price index ("RPI")

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2011 is £530m (2010 £636m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2012 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	£530m amortising (2010 £636m amortising)
	Average swap maturity	25 years (2010 23 years)
	Average interest rate	1 59% fixed plus RPI (2010 1 58% fixed plus RPI)

On 31 March 2011, the group repaid two leases which were index-linked through inflation swaps with a nominal value of £99m Thes inflation swaps have been reallocated to index-link an equivalent amount of European Investment Bank debt

16. 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

	2011	2010
Assets		
Cash and cash equivalents	**0 6%**	0 6%
Amounts owed by group undertakings	**12 0%**	12 0%
Liabilities		
Intercompany loans	**5 1%**	5 2%
Term loans	**2 6%**	2 4%
Other unsecured loans	**5 1%**	4 9%
Finance lease obligations	**1 3%**	1 6%

Trade and other receivables and payables are non interest bearing

16. Financial risk management cont'd

Interest due on the intercompany loan of £44 6m (2010 £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 15

b) Liquidity risk

2011	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets					
Cash and cash equivalents	**97 0**	-	-	-	**97 0**
Trade and other receivables	**489 2**	-	-	-	**489 2**
	586 2	-	-	-	**586 2**
Liabilities					
Intercompany loan	**14 3**	**13 7**	**41 8**	**1,867 2**	**1,937 0**
Term loan (KfW)	-	-	**23 3**	**11 7**	**35.0**
Other unsecured loans	**0 3**	**0 3**	**0 7**	**0 6**	**1 9**
Finance lease obligations	**7 2**	**11 5**	**77 2**	**645 9**	**741 8**
Trade and other payables	**510 4**	**1 2**	**3 2**	**28 7**	**543 5**
	532 2	**26 7**	**146 2**	**2,554 1**	**3,259 2**

2010 As restated	**Within 1 year £m**	**1 - 2 years £m**	**2 - 5 years £m**	**> 5 years £m**	**Total £m**
Assets					
Cash and cash equivalents	247 6	-	-	-	247 6
Trade and other receivables	484 4	-	-	-	484 4
	732 0	-	-	-	732 0
Liabilities					
Intercompany loan	134 1	13 7	43 6	1,756 0	1,947 4
Term loan (KfW)	-	-	11 7	23 3	35 0
Other unsecured loans	0 3	0 3	1 0	0 6	2 2
Finance lease obligations	9 9	11 9	91 8	769 9	883 5
Trade and other payables	504 9	0 8	2 4	12 7	520 8
	649 2	26 7	150 5	2,562 5	3,388 9

The minimum payments under finance leases fall due as follows

	2011 £m	2010 £m
Gross finance lease liabilities		
Within one year	**19 5**	22 2
Between two and five years	**191 2**	232 3
After five years	**947 3**	1,164 5
	1,158 0	1,419 0
Future interest	**(416 2)**	(535 5)
Net finance lease liabilities	**741 8**	883 5
Net finance lease liabilities are repayable as follows		
Within one year (note 14)	**7.2**	9 9
Between two and five years	**88 7**	103 7
After five years	**645 9**	769 9
Total over one year (note 14)	**734 6**	873 6

16. Financial risk management cont'd

c) Fair values

The fair values of the company's derivative financial instruments are set out in note 15 The fair value of the intercompany loan is £2,123 5m (2010 £2,183 8m) The fair values of the company's other non-derivative financial instruments are equal to the book values

d) Borrowing facilities

As at 31 March 2011, there were committed facilities for operating cash within the group of £200m (2010 £420m) expiring as set out below These comprised a term loan facility of £100m (2010 £345m revolving credit facility) and revolving credit facility of £100m (2010 £75m undrawn European Investment Bank loan) in respect of which all conditions precedent had been met

	2011	2010
	£m	£m
Expiring in less than 1 year		
- Intercompany term loan facility	**-**	75
- Intercompany revolving credit facilities	**100**	-
	100	75
Expiring in more than 1 year		
- Intercompany revolving credit facilities	**-**	345
- Intercompany term loan facility	**100**	-
	100	345
	200	420

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

On 17 May and 18 May 2011 the group cancelled its existing £100m of revolving credit facilities that were otherwise due to expire on 30 September 2011 (£60m) and 30 June 2012 (£40m), and entered into new bilateral revolving credit facilities totalling £140m with a group of 6 banks These new facilities expire on 17 May 2016 (£110m) and 18 May 2016 (£30m), although each bank has an option to extend its facility for a further year

At 31 March 2011, Dŵr Cymru (Financing) Limited ("Financing") also had a special liquidity facility of £150m which it is required to maintain in order to meet certain group interest and other obligations that cannot be fundwed 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 On 13 April 2011, Financing cancelled its special liquidity facility of £150m and entered into a new £135m facility with a syndicate of four banks The new facility is also renewable on an annual basis

All of the above facilities are at floating rates of interest

e) Capital risk management

Gearing ratios (group)

	2011	2010
	£m	£m
Total borrowings	**(2,760)**	(2,912)
Less cash and cash equivalents	**98**	249
Net debt	**(2,662)**	(2,663)
Regulatory capital value (RCV)	**3,980**	3,737
Total capital	**1,318**	1,074
Less unamortised bond costs	**(6)**	(6)
Total capital per bond covenants	**1,312**	1,068
Gearing ratio	**67%**	71%

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

Notes to the financial statements cont'd

17. Provisions

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2010	28 4	2 2	6 8	2 1	39 5
Charged to income statement	-	-	1 9	-	1 9
Utilised in year	(13 7)	(0 2)	(1 9)	(0 2)	(16 0)
At 31 March 2011	**14 7**	**2 0**	**6 8**	**1 9**	**25 4**
Split as					
Amounts to be utilised within one year	14 7	0 1	2 0	0 2	17 0
Amounts to be utilised after more than one year	-	1 9	4 8	1 7	8 4
At 31 March 2011	**14 7**	**2 0**	**6 8**	**1 9**	**25 4**

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2009	-	1 4	7 8	2 4	11 6
Charged to income *statement*	28 4	0 8	0 7	-	29 9
Utilised in year	-	-	(1 7)	(0 3)	(2 0)
At 31 March 2010	**28 4**	**2 2**	**6 8**	**2 1**	**39 5**
Split as					
Amounts to be utilised within one year	12 9	0 2	1 7	0 2	15 0
Amounts to be utilised after more than one year	15 5	2 0	5 1	1 9	24 5
At 31 March 2010	**28 4**	**2 2**	**6 8**	**2 1**	**39 5**

Restructuring provision – this provides for the costs of terminating the outsourced contracts along with the estimated restructuring costs associated with a reduction in the headcount by some 300 (see note 4)

Dilapidation provision - this provision is in respect of payments to be made relating to estimated dilapidation costs, which will be utilised over the next five years

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

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

Notes to the financial statements cont'd

18. Called-up share capital

	2011 £m	2010 £m
Authorised		
501,050,000 ordinary shares of £1 each	501 1	501 1
Allotted and fully paid		
309,876,374 ordinary shares of £1 each	309 9	309 9

19. Cash generated from operations

Reconciliation of operating profit to cash generated from operations

	2010 £m	2010 £m
Operating profit	227 5	175 8
Adjustments for		
- Depreciation and amortisation	144.7	139 5
- (Profit)/loss on disposal of property, plant and equiment	(0 1)	0 4
- Changes in working capital		
Increase in trade and other receivables	(4 8)	(10 0)
Increase/(decrease)in trade and other payables	30 1	(2 1)
Pension contributions in excess of operating costs	(2 6)	(1 1)
(Decrease)/increase in provisions	(6 6)	27 9
	16 1	14 7
Cash generated from operations	388 2	330 4

20. Analysis and reconciliation of net debt

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

	2011 £m	2010 £m
Cash and cash equivalents	97 0	247 6
Debt owed by parent company after one year	370 5	370 5
	467 5	618 1
Debt due after one year	1,959 3	(1,850 2)
Debt due within one year	(14 6)	(134 4)
Finance leases	(741 8)	(883 5)
Accrued interest	(45 0)	(43 9)
	(2,760 7)	(2,912 0)
Net debt	(2,293 2)	(2,293 9)

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

	2011 £m	2010 £m
Net debt at start of year	(2,293 9)	(2,251 0)
(Decrease)/increase in net cash	(150 6)	109 2
Decrease/(increase) in debt	187 4	(160 9)
Decrease/(increase) in net debt arising from cash flows	36 8	(51 7)
Movement in accrued interest	(1 1)	(1 9)
Indexation of index-linked debt	(48 1)	9 5
Accounting profit on lease termination	13 5	-
Other non-cash movements	(0 4)	1 2
Movement in net debt during the year	0 7	(42 9)
Net debt at end of year	(2,293 2)	(2,293 9)

Notes to the financial statements cont'd

21. Employees and directors

a) Directors' emoluments

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

	2011 £'000	2010 £'000
Salary (including benefits in kind)	**1,207**	913
Fees	**505**	528
	1,712	1,441
Long term incentive plan	**68**	77
Highest paid director (2011 and 2010 N C Annett)		
Aggregate emoluments	**473**	360
Accrued pension under defined benefit scheme	**117**	108
Long term incentive plan	**27**	30

Retirement benefits are accruing to three directors (2010 – three) under defined benefit schemes None of the directors is a member of the defined contribution scheme (2010 none)

Under the new Annual Variable Pay Scheme (AVPS), payment has been made in the current year equivalent to 23 0% of base salary for performance against the corporate Performance Scorecard, 38 3% for financial performance and in the range of 15% to 18% against Strategic and Personal Objectives, making a total payment in the range of 76 3% to 79 3% This compared to a maximum of 100% Under the Long Term Variable Pay Scheme (LTVPS) provision has been made for a 10% staged payment of the Customer Equity element of the scheme, but no provision for a Customer Service award (Further details are provided in the 2011 Remuneration Report which forms part of Glas Cymru's 2011 Report and Accounts) The 2010-11 accounts include an accrual for an interim payment of £68,000 (equivalent to 10% of base salary) reflecting the Remuneration Committee's current estimate of performance under the LTVPS in respect of the five year period ending 31 March 2015

The performance bonus of £227,040 in respect of 2009-10 as accrued at 31 March 2010 was paid in November 2010 following the publication of Ofwat's OPA performance report for 2009-10

b) Staff costs during the year

	2011 £m	2010 £m
Wages and salaries	**57 5**	10 7
Social security costs	**4 5**	1 1
Other pension costs	**10 0**	1 7
	72 0	13 5

Average monthly number of people (including executive directors) employed by the group	**2010 Number**	2009 Number
Regulated water and sewerage activities	**1,727**	200

Of the above, £22 3m (2010 £5 9m) has been capitalised

Durig the year some 1,600 employees who worked on the previously outsourced operational contracts transferred to Welsh Water via TUPE arrangements

Notes to the financial statements cont'd

22. 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

On 20 October 2010, a bulk transfer of assets with a value of £26m was made into the DCWW Pension Scheme from the KWS Pension Scheme, being the accrued benefits of 192 ex-KWS employees who elected to transfer their past service benefits On 8 December 2010, £129m of assets were transferred into the DCWW scheme from the United Utilities pension schemes (UUPS and ESPS schemes - £123m and 6m respectively), being the accrued benefits of 652 ex-UUOS employees who elected to transfer their past service benefits

Total pension costs in the year were as follows

	2011	2010
	£m	£m
Defined contribution scheme	**0 4**	0 3
Defined benefit scheme - excluding actuarial loss	**7 8**	1 3
	8 2	1 6
Net actuarial loss recognised in year	**4 7**	1 5
	12 9	3 1

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2010 by Robert Davies of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method This valuation has been updated at 31 March 2011 and the principal assumptions made by the actuaries were

	2011	2010
Discount rate	**5 5%**	5 6%
Inflation assumption	**3 3%**	3 5%
Rate of increase in pensionable salaries	**4 3%**	4 5%
Rate of increase in pensions in payment	**3 1%**	3 3%
Post retirement mortality (life expectancy)		
- Current pensioners aged 65 - males	**87 0 yrs**	87 0 yrs
- Current pensioners aged 65 - females	**89 9 yrs**	89 9 yrs
- Future pensioners aged 65 (currently aged 45) - males	**88 1 yrs**	88 1 yrs
- Future pensioners aged 65 (currently aged 45) - females	**90 9 yrs**	90 9 yrs

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

		2011		2010
	Expected return	**% of total assets**	Expected return	% of total assets
Equities	**7 5%**	**55 2%**	7 5%	60 5%
Bonds	**5 0%**	**12 6%**	5 0%	39 2%
Other	**3 0%**	**32 2%**	3 0%	0 3%

Notes to the financial statements cont'd

22. Pension commitments cont'd

The amounts recognised in the income statement are as follows

	2011 £m	2010 £m
Current service cost (excluding member contributions)	**8 6**	0 8
Past service cost	**4 9**	0 2
Effect of curtailments or settlements	**-**	-
	13 5	1 0
Utilisation of restructuring provision	**(4 9)**	-
Total included within staff costs	**8 6**	1 0
Interest cost	**7 9**	2 5
Expected return on plan assets	**(8 7)**	(2 2)
Total included within interest payable and similar charges	**(0 8)**	0 3
Total recognised in the Income Statement	**7 8**	1 3

The amounts recognised in the Statement of Comprehensive Income are as follows

	2011 £m	2010 £m
Actuarial (loss)/gain on plan assets	**(8 2)**	10 0
Actuarial gain/(loss) on defined benefit obligation	**3 5**	(11 5)
Total recognised in the Statement of Comprehensive Income	**(4 7)**	(1 5)

The amounts recognised in the balance sheet are determined as follows

	2011 £m	2010 £m
Present value of funded obligations	**(238 6)**	(55 2)
Plus unrecognised prior service costs	**0 2**	0 4
Fair value of plan assets	**222 9**	46 8
Net liability recognised in the Balance Sheet	**(15 5)**	(8 0)

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

	2011 £m	2010 £m
At 1 April	**55 2**	40 6
Current service cost	**8 6**	0 8
Employee contributions	**0 3**	0 4
Past service cost (vested benefits)	**4 7**	-
Interest cost	**7 9**	2 5
Benefits paid (net of transfers in)	**(2 2)**	(0 6)
Settlement	**167 7**	-
Actuarial loss	**(3 6)**	11 5
At 31 March	**238 6**	55 2

Notes to the financial statements cont'd

22. Pension commitments cont'd

Changes in the fair value of plan assets are as follows

	2011 £m	2010 £m
At 1 April	**46 8**	32 3
Expected return on plan assets	**8 7**	2 2
Employer contributions	**10 9**	2 6
Employee contributions	**0 2**	0 3
Benefits paid (net of transfers in)	**(2 2)**	(0 6)
Settlement	**166 7**	-
Actuarial (loss)/gain on plan assets	**(8 2)**	10 0
At 31 March	**222 9**	46 8

The actual return on plan assets was £1m (2010 £12m)

Analysis of the movement in the Balance Sheet liability

	2011 £m	2010 £m
At 1 April	**8 0**	7 8
Total charge to Income Statement (including utilisation of restructuring provision)	**12 7**	1 2
Total charge to Statement of Comprehensive Income	**4 7**	1 5
Bulk transfer (net liability)	**1 0**	-
Contributions paid (excluding member contributions)	**(10 9)**	(2 5)
At 31 March	**15 5**	8 0

Cumulative actuarial gains and losses recognised in equity

	2011	2010	2009	2008	2007
Experience adjustments arising on scheme assets					
Amount (£m)	**(8 2)**	10 0	(9 3)	(4 7)	(0 2)
Percentage of scheme assets	**(4%)**	21%	(29%)	(12%)	1%
Experience adjustments arising on scheme liabilities					
Amount (£m)	**3 6**	11 5	(1 1)	8 0	(0 7)
Percentage of the present value of scheme liabilities	**2%**	21%	(3%)	22%	(2%)
Present value of scheme liabilities (£m)	**238 4**	54 8	40 1	36 8	41 0
Fair value of scheme assets (£m)	**222 9**	46 8	32 3	38 8	35 5
(Deficit)/surplus (£m)	**(15 5)**	(8 0)	(7 8)	2 0	(5 5)

The contributions paid in the year to 31 March 2011 include a special contribution of £2 6m (2010 £1 1m) The contribution expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2012 amounts to £2 6m

23. 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 16, 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 (2010 £192m) notional As at 31 March 2011, the mark to market value of this interest rate swap was £44m (2010 £45m), and the interest rate and maturity of the swap are 5 67% and 20 years (2010 5 67% and 21 years) respectively

Aside from the above, there were no contingent liabilities other than those arising from the ordinary course of the company's business and on these no material losses are anticipated

24. Capital and other financial commitments

The company's business plan at 31 March 2011 shows net capital expenditure and infrastructure renewals expenditure of £273m (2010 £252m) 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

25. 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 £144 6m (2010 £83 7m)

26. Immediate and ultimate holding company

The immediate parent company is Dŵr Cymru (Holdings) Limited and the ultimate holding company and controlling party is Glas Cymru 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

Notes to the financial statements cont'd

27. 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 2m (2010 £2 6m) in respect of distributions from the Elan Valley Trust Fund