

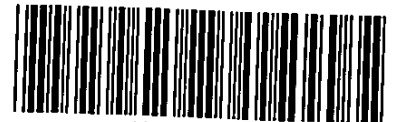
Registered N^o. 2366777

Dŵr Cymru Cyfyngedig

Annual report and financial statements
for the year ended 31 March 2012

Registered office
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

WEDNESDAY



A1GUMDT5
A35 05/09/2012 #334
COMPANIES HOUSE

Foreword	2
Directors and advisers	3
Directors' report	4
Statement of directors' responsibilities	7
Independent auditors' report to the members of Dŵr Cymru Cyfyngedig	8
Income statement for the year ended 31 March 2012	9
Statement of comprehensive income for the year ended 31 March 2012	10
Statement of changes in equity for the year ended 31 March 2012	10
Balance sheet as at 31 March 2012	11
Cash flow statement for the year ended 31 March 2012	12
Principal accounting policies	13
Notes to the financial statements	21

Foreword

These financial statements for Dŵr Cymru Cyfyngedig cover the year to 31 March 2012. 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 2012 is included in the published report and accounts for Glas Cymru Cyfyngedig.

Directors and advisers

Directors

Robert Ayling
Nigel Annett
Chris Jones
Peter Perry
John Bryant
Tony Hobson
James Strachan
Prof Stephen Palmer
Menna Richards
Anna Walker
John Warren

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
Non-executive Director (appointed 4 May 2012)

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 2012 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 2012 was £695 million (2011 £677 million) – an increase of 3%. The increase primarily reflects the price rise of 3.4% in the year as well as customers switching to metered charging. The number of customers switching to metered charging in the year fell somewhat to 14,100 (2011 14,400), whilst some 7,000 new customers (2011 5,600 customers) were added during the year, all of whose supplies are metered

The net interest charge for the year was £192 million (2011 £175 million) and the average cost of net debt during the period was 6.8% (2011 7.7%). In 2011-12, £6.7 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 £185 million. In addition, a non-cash loss of £80 million was recognised in the income statement for the movement in the fair value of derivative financial instruments (2011 gain of £5 million)

Loss after tax was £66 million (2011 profit of £127 million)

The taxation credit for the year is £8 million, compared to a 'normalised' taxation credit of £19 million (based on the loss before tax of £74 million at the corporation tax rate in force for the year of 26%). The principal variances relate to a £20 million deferred tax credit due to the corporation tax rate reduction from 26% to 24% in future year, prior year tax charges of £28 million relating primarily to the deferred tax treatment of finance leases, along with other permanent differences of £4m

The company has tax trading losses carried forward of approximately £400 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

At 31 March 2012 Welsh Water had 2,053 employees. 95 people left the business during the year, putting us on track to meet the programme announced in 2010 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, we are engaging with employees and developing the talent and core-competence of the business

Directors' report cont'd

Occupational health and safety

We are committed to high standards of occupational health and safety and our performance improved last year with 13% fewer RIDDOR accidents and we brought some 40 of our tier-2 subcontractors under our occupational health and management system for the first time. More information on our health and safety strategy and performance is provided in our 2012 Occupational Health and Safety Report which is available on our website.

Research and development

We have 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. More generally, 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.

Payment policy

Payment terms are agreed at the start of a relationship with a supplier, they are only changed by agreement and payment will be made in accordance with those terms, save where an invoice is contested. We will seek to remedy disputes as promptly as possible. Standard payment terms 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 2011-12 the average payment period for the Glas Cymru group was 62 days (2011: 55 days). The level of capital retentions varies from year to year and affects the average payment period for the year.

Dividend

During the year, the company has paid a dividend of £50m (2011: £nil).

Donations

During the year, charitable donations amounted to £5,656 (2011: £8,150) as shown below.

Beneficiary	£
Water Aid	2,106
Pembrokeshire Council	1,000
Milford Haven Port Authority	1,000
Ty Hafan	100
Swansea Miners Appeal	850
Other	600
	5,656

It is company policy to make no donations to political parties or to incur political expenditure, and during 2011-12 no donations or payments have been made which are required to be disclosed under section 336 of the Companies Act 2006.

Directors' report cont'd

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 2012.

Disclosure of information to auditors

PricewaterhouseCoopers LLP acted as auditors to Dŵr Cymru Cyfyngedig for the accounts for the year ended 31 March 2012. 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 2012 annual general meeting.

By order of the Board



Richard Curtis LLB ACIS
Company Secretary

13 June 2012

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board



Richard Curtis LLB ACIS
Company Secretary

13 June 2012

Independent auditors' report to the member of Dŵr Cymru Cyfyngedig

We have audited the financial statements of Dŵr Cymru Cyfyngedig for the year ended 31 March 2012 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 2012 and of its loss 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.



Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
13 June 2012

Income statement for the year ended 31 March 2012

			2012		2011
Continuing activities	Note	£m	£m	£m	£m
Revenue			695 0		676 7
Operating costs					
- Operational expenditure	3	(272 5)		(264 6)	
- Infrastructure renewals expenditure	3	(81.1)		(40 0)	
- Depreciation and amortisation	3	<u>(150 0)</u>		<u>(144 6)</u>	
			(503.6)		(449 2)
Operating profit			<u>191 4</u>		<u>227 5</u>
Financing costs					
- Interest payable and similar charges	4a	(189 9)		(173 6)	
- Interest receivable	4a	4 9		4 1	
- Fair value (losses)/gains on derivative financial instruments	4b	<u>(80 0)</u>		<u>5 2</u>	
			(265 0)		(164 3)
(Loss)/profit before taxation	3		(73 6)		63 2
Taxation	5		7 5		64 0
(Loss)/profit for the year			<u>(66 1)</u>		<u>127 2</u>

Statement of comprehensive income for the year ended 31 March 2012

	Note	2012 £m	2011 £m
(Loss)/profit for the year		(66 1)	127 2
Actuarial loss recognised in the pension scheme	21	(25 8)	(4 7)
Movement on deferred tax asset relating to pension scheme	6	6 2	1 2
Total comprehensive (expense)/income for the year		(85 7)	123 7

Statement of changes in equity for the year ended 31 March 2012

	Called-up share capital £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 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
Total comprehensive expense for the year	-	-	(85 7)	(85 7)
Dividend paid	-	-	(50 0)	(50 0)
At 31 March 2012	309 9	166 2	(80 6)	395 5

Balance sheet as at 31 March 2012

	Note	2012 £m	2011 £m
Assets			
Non-current assets			
Property, plant and equipment	7	3,231.7	3,178.9
Intangible assets	8	66.6	65.4
Investments	9	0.1	0.1
Financial assets			
- derivative financial instruments	14	-	2.7
Trade and other receivables	10	320.5	370.5
		<u>3,618.9</u>	<u>3,617.6</u>
Current assets			
Trade and other receivables	10	511.9	489.2
Cash and cash equivalents	11	299.1	97.0
		<u>811.0</u>	<u>586.2</u>
Liabilities			
Current liabilities			
Trade and other payables	12	(537.9)	(510.4)
Financial liabilities			
- borrowings	13	(77.4)	(26.8)
- derivative financial instruments	14	(15.0)	(34.5)
Provisions	16	(12.7)	(17.0)
		<u>(643.0)</u>	<u>(588.7)</u>
Net current (liabilities)/assets		168.0	(2.5)
Non-current liabilities			
Trade and other payables	12	(57.3)	(33.1)
Financial liabilities			
- borrowings	13	(2,912.8)	(2,733.9)
- derivative financial instruments	14	(145.8)	(49.0)
Provisions	16	(9.5)	(8.4)
Retirement benefit obligations	21	(31.9)	(15.5)
		<u>(3,157.3)</u>	<u>(2,839.9)</u>
Net assets before deferred tax		629.6	775.2
Deferred tax - net	6	(234.1)	(244.0)
Net assets		<u>395.5</u>	<u>531.2</u>
Equity			
Called-up share capital	17	309.9	309.9
Capital redemption reserve		166.2	166.2
(Deficit)/reserves		(80.6)	55.1
Total equity		<u>395.5</u>	<u>531.2</u>

The financial statements on pages 9 to 41 were approved by the Board of Directors on 13 June 2012 and were signed on its behalf by



Nigel Annett
Managing Director



Chris Jones
Finance Director

Cash flow statement for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Cash flow from operating activities			
Cash generated from operations	18	387.2	388.2
Interest received		4.6	4.1
Interest paid		(97.8)	(143.9)
Tax receipt		2.5	1.7
Net cash generated from operating activities		296.5	250.1
Cash flow from investing activities			
Purchase of property, plant and equipment		(185.5)	(227.4)
Grants and contributions received		9.5	14.1
Net cash used in investing activities		(176.0)	(213.3)
Net cash generated before financing activities		120.5	36.8
Cash flows from financing activities			
Equity dividends paid		(50.0)	-
Loan received from group undertaking		153.1	75.0
Loan repaid to group undertaking		-	(133.9)
Net draw down on term loans/loan repayments		(13.5)	-
Capital element of finance lease payments		(7.7)	(128.2)
Other loan repayments		(0.3)	(0.3)
Net cash generated/(used in) from financing activities		81.6	(187.4)
Increase/(decrease) in net cash	19b	202.1	(150.6)
Net cash at 1 April		97.0	247.6
Net cash at 31 March	11	299.1	97.0

Principal accounting policies

1. Accounting policies, financing risk management and accounting estimates

Accounting policies for the year ended 31 March 2012

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.

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. Where customers have made payments in advance as at the year end, this is recognised as deferred income.

Principal accounting policies cont'd

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

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.

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
Operational structures	5 – 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.

Principal accounting policies cont'd

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

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 intangible assets when the relevant recognition criteria are met (as per IAS 38). The carrying values of intangible assets are reviewed for impairment if circumstances dictate the carrying value may not be recovered. Intangible assets are amortised on a straight line basis over their estimated useful economic lives, which range between 3 and 20 years. These asset lives are reviewed annually.

Leased assets

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

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

Grants and customer contributions

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

Capital expenditure programme incentive payments

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

Trade receivables

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

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.

Principal accounting policies cont'd

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

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 Statement 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.

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 2012, none of the group's derivatives qualified for hedge accounting under IAS 39 (2011 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.

Principal accounting policies cont'd

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

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 obligation may be small.

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

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.

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. Other than £60 million of commercial paper invested with the European Investment Bank (with maturities ranging from 7 to 12 months), cash is invested for a maximum period of one month. The maximum cash investment with a single counterparty was £30m (2011 £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 £2,990m as at 31 March 2012 (2011 £2,761m), none related to floating rate debt (2011 none). The company therefore considers overall interest rate exposure at the balance sheet date to be minimal.

As at 31 March 2012, 100% (2011 100%) of the group's gross debt was at fixed or index-linked ("RPI") rates of interest after taking into account interest rate and RPI swaps. The "hedges" established to manage interest rate risks are economic in nature, but do not satisfy the specific requirements of IAS 39 in order to be treated as hedges for accounting purposes. Accordingly, all movements in the fair value of derivative financial instruments are reflected in the income statement. This has resulted in a net liability of £298 million in the balance sheet at 31 March 2012 (2011 £160 m) 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 70% of the estimated power requirement of the business for the remainder of the regulatory period to 31 March 2015. These contracts neither qualify as financial instruments under IAS 39 nor as onerous contracts under IAS 37 and consequently are not included 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 £2,990m (2011 £2,761m) can fall due in any 24 month period.

Principal accounting policies cont'd

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 2012, the group had committed undrawn borrowing facilities of £215m (2011 £200m) and cash and cash equivalents (excluding debt service payments account) of £238m (2011 £88m)

The group has undrawn revolving credit facilities of £140 million of which £50 million is available to be drawn until May 2016 and the balance of £90 million until May 2017

As at 31 March 2012, there was also a special liquidity facility of £135m (2011 £150 million), 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 2012 gearing was 65%.

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

Principal accounting policies cont'd

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 1%, the provision for impairment would increase or decrease by £0.5 million (2011: £0.5 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 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 2012 would increase or reduce by £6.1 million (2011: £4.7 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 1% change in actual consumption from that estimated would have the effect of increasing or decreasing the accrual by £0.6 million (2011: £0.5 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 (loss)/profit before taxation

	Total 2012 £m	Total 2011 £m
Operations		
Power	34 4	33 7
Chemicals	8 8	8 5
Materials and equipment	3 0	2 9
Telephones and other IT	5 0	4 0
Vehicles and plant	8 4	7 3
Office expenses	3 9	2 3
* Property costs	3 9	3 8
Insurances	4 4	5 3
Sewerage contractors	2 0	3 4
Water costs	5 7	4 8
Customer service agreements	20 1	19 8
Laboratories and analytical services	5 6	6 9
Collection commissions	4 1	3 9
IT Contracts	13 3	17 8
Other bought in services	21 1	28 4
	<u>143 7</u>	<u>152 8</u>
Employee costs (note 20)	79 5	72 0
Staff costs capitalised	(21 4)	(22 3)
Sub contracted staff costs	-	1 4
	<u>58 1</u>	<u>51 1</u>
Research and development expenditure	0 5	0 5
Trade receivables impairment	27 0	22 3
Rates	27 9	22 7
Environment Agency charges	15 1	15 0
Fees payable to auditors	0 2	0 2
	<u>272 5</u>	<u>264 6</u>
Total operational expenditure		
Infrastructure renewals expenditure	81 1	40 0
Depreciation and amortisation		
- Owned assets	104 8	89 1
- Under finance leases	33 9	47 9
- Amortisation of intangible assets	11 4	7 7
- Profit on disposal of property, plant and equipment	(0 1)	(0 1)
	<u>150 0</u>	<u>144 6</u>
	<u>503 6</u>	<u>449 2</u>

Notes to the financial statements cont'd

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

	2012 £'000	2011 £'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	22	23
Regulatory audit services pursuant to legislation	39	39
Bond prospectus updates and bond issue	25	-
Total audit and audit-related fees	174	150
Other services		
Tax advisory services	14	-
Other	8	8
Total other services	22	8
Total cost of services provided by the group's auditors	196	158

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 £13,000 (2011: £12,000).

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.

Notes to the financial statements cont'd

4. Financing costs

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

	2012	2011
	£m	£m
Interest payable on loans	(147.3)	(148.4)
Interest payable on finance leases (including swaps to RPI)	(45.2)	(28.1)
Net interest (charge)/credit on pension scheme liabilities	(0.1)	0.7
Other interest payable and finance costs	(4.0)	(3.2)
Capitalisation of interest under IAS 23 (note 1a) (2012 6.8%, 2011 6.3%)	6.7	5.4
Interest payable	(189.9)	(173.6)
Interest receivable	4.9	4.1
Net interest payable before fair value adjustments	<u>(185.0)</u>	<u>(169.5)</u>

Included within interest payable are amounts payable to group undertakings of £143.6m (2011 £144.6m)

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 14 in respect of derivative financial instruments recognised in the balance sheet.)

	2012	2011
	£m	£m
Fair value gains on interest rate swaps	0.1	0.1
Fair value (losses)/gains on index-linked swaps	(80.1)	5.1
Total fair value (losses)/gains on derivative financial instruments	(80.0)	5.2
Deferred tax effect at 24% (2011 26%) of fair value (losses)/gains	19.2	(1.4)
Net of tax impact of fair value (losses)/gains	<u>(60.8)</u>	<u>3.8</u>

5. Taxation

	2012	2011
	£m	£m
Current tax		
- Current period	1.4	-
- Adjustment in respect of prior years	2.4	2.5
	<u>3.8</u>	<u>2.5</u>
Deferred tax		
- Origination and reversal of timing differences	19.6	43.9
- Adjustment in respect of prior years	(30.3)	-
- Effect of tax rate change	20.6	18.8
Total deferred tax (note 6)	<u>9.9</u>	<u>62.7</u>
Total taxation credit/(charge)	<u>13.7</u>	<u>65.2</u>
Analysed as		
Total credit to Income Statement	7.5	64.0
Credit to Statement of Comprehensive Income	6.2	1.2
	<u>13.7</u>	<u>65.2</u>

Notes to the financial statements cont'd

5. Taxation cont'd

Tax trading losses carried forward as at 31 March 2012 are circa £400m (2011 £387m)

The effective rate of tax for the year is lower (2011 lower) than the standard rate of corporation tax in the UK (2012 26%, 2011 28%) The differences are explained below

	2012 £m	2011 £m
(Loss)/profit before tax	<u>(73 6)</u>	<u>63 2</u>
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 26% (2011 28%)	(19 1)	17 7
Effect of		
Adjustments in respect of prior years	27 9	(34 0)
Other permanent differences	3 7	(30 1)
Effect of tax rate change	(20 0)	(18 8)
Movement on deferred tax asset relating to pension scheme	(6 2)	-
Total taxation credit	<u>(13 7)</u>	<u>(65 2)</u>

6. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 24% (2011 26%)

The movement in the deferred tax provision is as shown below

	2012 £m	2011 £m
At 1 April	244 0	306 8
Credit to Income Statement	(3 7)	(61 6)
Credit to Statement of Comprehensive Income	(6.2)	(1 2)
At 31 March	<u>234 1</u>	<u>244 0</u>
	2012 £m	2011 £m
Effect of		
Tax allowances in excess of depreciation	395.0	372 8
Capital gains rolled over	3 8	4 1
Deferred tax liability	398 8	376 9
Deferred tax on tax losses carried forward	(114.2)	(100 8)
Deferred tax on losses on derivative financial instruments	(38 6)	(21 0)
Pensions	(7 7)	(4 0)
Other tax differences	(4 2)	(7 1)
Deferred tax asset	(164 7)	(132 9)
Net provision for deferred tax	<u>234 1</u>	<u>244 0</u>

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.

Notes to the financial statements cont'd

7. 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 2011	34 9	1,586 8	2,770 6	234 7	4,627 0
Additions net of grants and contributions	0 2	40 3	149 9	2 7	193 1
At 31 March 2012	35 1	1,627 1	2,920 5	237 4	4,820 1
Accumulated depreciation					
At 1 April 2011	17 3	188 4	1,037 1	205 3	1,448 1
Charge for the year	0 6	23 9	95 7	20 1	140 3
At 31 March 2012	17 9	212 3	1,132 8	225 4	1,588.4
Net book value					
At 31 March 2012	17 2	1,414 8	1,787 7	12 0	3,231.7

The net book value of property, plant and equipment includes £106.8m in respect of assets in the course of construction (2011 £119.1m)

The net book value of property, plant and equipment includes £16.6m of borrowing costs capitalised in accordance with IAS 23 (2011 £10.8m), of which £6.2m were additions in the year (2011 £5.4m)

On 1 October 2011 Dwr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000km of private drains and sewers has significantly increased the size of the network. Little information is available to judge the condition of those sewers – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the regulatory capital value of the business, a value of £nil has been attributed to these assets in the financial statements as at 31 March 2012.

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 2012			
Cost	611 8	483 9	1,095 7
Accumulated depreciation	74 7	251 6	326 3
Net book value	537 1	232 3	769 4

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
Cost					
At 1 April 2010	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	<u>34 9</u>	<u>1,586 8</u>	<u>2,770 6</u>	<u>234 7</u>	<u>4,627 0</u>
Accumulated depreciation					
At 1 April 2010	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	<u>17 3</u>	<u>188 4</u>	<u>1,037 1</u>	<u>205 3</u>	<u>1,448 1</u>
Net book value					
At 31 March 2011	<u>17 6</u>	<u>1,398 4</u>	<u>1,733 5</u>	<u>29 4</u>	<u>3,178 9</u>
At 31 March 2010	<u>17 1</u>	<u>1,394 9</u>	<u>1,663 0</u>	<u>42 8</u>	<u>3,117 8</u>

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 2011			
Cost	611 8	483 9	1,095 7
Accumulated depreciation	67 0	225 4	292 4
Net book value			
At 31 March 2011	<u>544 8</u>	<u>258 5</u>	<u>803 3</u>
At 31 March 2010	<u>552 5</u>	<u>404 7</u>	<u>957 2</u>

Notes to the financial statements cont'd

8. Intangible assets

	Cost £m	Amortisation £m	Net book value £m
Current year			
At 1 April 2011	129 6	(64 2)	65 4
Additions/(charge for year)	12 6	(11 4)	1 2
At 31 March 2012	<u>142 2</u>	<u>(75 6)</u>	<u>66 6</u>
Prior year			
At 1 April 2010	116 6	(56 5)	60 1
Additions/(charge for year)	13 0	(7 7)	5 3
At 31 March 2011	<u>129 6</u>	<u>(64 2)</u>	<u>65 4</u>

Intangible fixed assets comprise computer software and related system developments

The net book value of intangible assets includes £12.9m in respect of assets in the course of construction (2011: £3.6m)

The net book value of intangible assets includes £0.9m of borrowing costs capitalised in accordance with IAS 23 (2011: £0.4m) of which £0.5m were additions in the year (2011: £0.4m)

9. Investments

	2012 £m	2011 £m
Cost and net book value		
At 1 April and 31 March	<u>0 1</u>	<u>0 1</u>

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

10. Trade and other receivables

	2012 £m	2011 £m
Current		
Trade receivables	487 7	463 1
Less provision for impairment of receivables	<u>(54 6)</u>	<u>(48 1)</u>
Trade receivables - net	433 1	415 0
Prepayments and accrued income	66 3	63 3
Corporation tax	3 8	2 5
Other receivables	<u>8 7</u>	<u>8 4</u>
	511 9	489 2
Non-current		
Amounts receivable from group undertakings	<u>320 5</u>	<u>370 5</u>
	320 5	370 5
Total trade and other receivables	<u>832 4</u>	<u>859 7</u>

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

As at 31 March 2012, based on a review of collection rates it was considered that £54.6m of trade receivables were impaired and these have therefore been provided for (2011: £48.1m). The impaired receivables mainly relate to measured and unmeasured water supply receivables.

The ageing of these receivables was as follows

	Total	Provided for	Net
	£m	£m	£m
Current year			
Trade receivables			
Billings in advance	389 3	-	389 3
Under one month	15 9	(3.5)	12 4
Between one and six months	26.9	(11 5)	15.4
Between six months and one year	19 5	(7 5)	12.0
Between one and two years	20 8	(17 2)	3 6
Between two and three years	13.8	(13 4)	0 4
Over three years	1 5	(1 5)	-
	<u>487 7</u>	<u>(54 6)</u>	<u>433 1</u>
Prior year			
Trade receivables			
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)	-
	<u>463 1</u>	<u>(48 1)</u>	<u>415 0</u>

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

Notes to the financial statements cont'd

10. Trade and other receivables cont'd

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

	2012	2011
	£m	£m
At 1 April	48 1	44 2
Charge to Income Statement	26 2	21 5
Receivables written off during the year as uncollectable	(19 7)	(17 6)
At 31 March	<u>54 6</u>	<u>48 1</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

During the year the company has written off £19.7m of debt which had been provided for in full (2011: £17.6m)

11. Cash and cash equivalents

	2012	2011
	£m	£m
Cash at bank and in hand	(15 9)	(21 5)
Short-term deposits	315 0	118 5
	<u>299 1</u>	<u>97 0</u>

The effective interest rate on short-term deposits as at 31 March 2012 was 0.7% (2011: 0.6%) and these deposits have an average maturity of 31 days (2011: 3 days). All cash and cash equivalents were held in sterling

Cash at bank and in hand as at 31 March 2012 includes the effect of uncleared cheque and BACS payments

12. Trade and other payables

	2012	2011
	£m	£m
Current		
Trade payables	47 7	34 4
Capital payables	27 2	31 3
Amounts due to group undertakings	3 7	3 7
Other taxation and social security	2 8	2 4
Accruals and deferred income	456 5	438 6
	<u>537 9</u>	<u>510 4</u>
Non-current		
Deferred Income	<u>57 3</u>	<u>33 1</u>

Notes to the financial statements cont'd

13. Financial liabilities – borrowings

	2012	2011
	£m	£m
Current		
Interest accruals	0 2	5 0
Loans due to group undertakings	65 0	14 3
Other unsecured loans	0 4	0 3
Finance lease obligations	11 8	7 2
	<u>77 4</u>	<u>26 8</u>
	2012	2011
	£m	£m
Non-current		
Interest accruals	40 7	40 0
Loans due to group undertakings	2,113 6	1,922 7
Term loan (KfW)	35 0	35 0
Other unsecured loans	1 2	1 6
Finance lease obligations	722 3	734 6
	<u>2,912 8</u>	<u>2,733 9</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 of £950 5m (2011 £922 1m) benefit from a guarantee from MBIA UK Insurance Limited

14. 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 4b). 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

2012	Fair values	
	Assets	Liabilities
	£m	£m
Current		
Index-linked swaps	-	(14 7)
Interest rate swaps	-	(0 3)
	-	<u>(15 0)</u>
Non-current		
Index-linked swaps	-	(145 8)
Interest rate swaps	-	-
	-	<u>(145 8)</u>
Total	-	<u>(160 8)</u>

Notes to the financial statements cont'd

14. Derivative financial instruments cont'd

2011	Fair values	
	Assets £m	Liabilities £m
Current		
Index-linked swaps	-	(34 1)
Interest rate swaps	-	(0 4)
	<u>-</u>	<u>(34 5)</u>
Non-current		
Index-linked swaps	2 7	(49 0)
Interest rate swaps	-	-
	<u>2 7</u>	<u>(49 0)</u>
Total	<u>2 7</u>	<u>(83 5)</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 such embedded derivatives as per IAS 39.

Interest rate swaps

£446m (2011: £449m) 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 2013. The mark to market value of these swaps is wholly included in current liabilities. These swaps are matched against the same liabilities as £426m (2011: £428m) of the finance lease index-linked swaps noted below.

£50m (2011: £52m) 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 £50m (2011: £52m).

Index-linked swaps

The index-linked swaps have the effect of fixing the interest rate on £549m (2011: £553m) of finance lease liabilities and £94.1m (2011: £99m) of intra-group indebtedness by reference to the retail price index ("RPI").

The notional amount of index-linked swaps allocated to finance leases as at 31 March 2012 is £528m (2011: £530m), representing the average balance on the finance leases subject to floating interest rates for the year to 31 March 2013. The notional amount amortises over the life of the swaps to match the average floating rate balances of the leases.

The notional amount of the index-linked swaps allocated to intra-group indebtedness as at 31 March 2012 is £94.1m (2011: £99m). This notional amount amortises over the 11 year life of the swap.

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

Notional amount	£528m amortising (2011: £530m amortising)
Average swap maturity	24 years (2011: 25 years)
Average interest rate	1.59% fixed plus RPI (2011: 1.59% fixed plus RPI)

15. 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:

	2012	2011
Assets		
Cash and cash equivalents	0.7%	0.6%
Amounts owed by group undertakings	12.0%	12.0%
Liabilities		
Intercompany loans	4.6%	5.1%
Term loans	1.7%	2.6%
Other unsecured loans	5.1%	5.1%
Finance lease obligations	2.0%	1.3%

Notes to the financial statements cont'd

15. Financial risk management cont'd

Trade and other receivables and payables are non interest bearing

Interest due on the intercompany loan of £44.6m (2011: £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 14.

b) Liquidity risk

2012	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	> 5 years £m	Total £m
Assets					
Cash and cash equivalents	299.1	-	-	-	299.1
Trade and other receivables	511.9	-	-	-	511.9
	<u>811.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>811.0</u>
Liabilities					
Intercompany loan	65.0	13.7	48.6	2,051.3	2,178.6
Term loan (KfW)	-	-	35.0	-	35.0
Other unsecured loans	0.4	0.4	0.4	0.4	1.6
Finance lease obligations	11.8	16.0	118.5	587.8	734.1
Trade and other payables	537.9	1.8	4.7	50.8	595.2
	<u>615.1</u>	<u>31.9</u>	<u>207.2</u>	<u>2,690.3</u>	<u>3,544.5</u>
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
	<u>586.2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>586.2</u>
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
	<u>532.2</u>	<u>26.7</u>	<u>146.2</u>	<u>2,554.1</u>	<u>3,259.2</u>

The minimum payments under finance leases fall due as follows

	2012 £m	2011 £m
Gross finance lease liabilities		
Within one year	26.7	19.5
Between two and five years	192.0	191.2
After five years	719.8	947.3
	<u>938.5</u>	<u>1,158.0</u>
Future interest	(204.4)	(416.2)
Net finance lease liabilities	<u>734.1</u>	<u>741.8</u>
Net finance lease liabilities are repayable as follows		
Within one year (note 13)	<u>11.8</u>	<u>7.2</u>
Between two and five years	134.5	88.7
After five years	587.8	645.9
Total over one year (note 13)	<u>722.3</u>	<u>734.6</u>

Notes to the financial statements cont'd

15. Financial risk management cont'd

c) Fair values

The fair values of the company's derivative financial instruments are set out in note 14. The fair value of the intercompany loan is £2,493.4m (2011: £2,123.5m). 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 2012, there were committed facilities for operating cash within the group of £215m (2011: £200m) expiring as set out below. These comprised a revolving credit facility of £140m (2011: £100m term loan facility) and an undrawn European Investment Bank Facility of £75m (2011: £100m revolving credit facility) in respect of which all conditions precedent had been met.

	2012 £m	2011 £m
Expiring in less than 1 year		
- Intercompany term loan facility	75	-
- Intercompany revolving credit facilities	-	100
	<u>75</u>	<u>100</u>
Expiring in more than 1 year		
- Intercompany revolving credit facilities	140	-
- Intercompany term loan facility	-	100
	<u>140</u>	<u>100</u>
	<u>215</u>	<u>200</u>

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

The group has undrawn revolving credit facilities of £140 million of which £50 million is available to be drawn until May 2016 and the balance of £90 million until May 2017.

At 31 March 2011, Dŵr Cymru (Financing) Limited ("Financing") also had a special liquidity facility of £135m (2011: £150m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

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

e) Capital risk management

Gearing ratios (group)

	2012 £m	2011 £m
Total borrowings	(2,990)	(2,760)
Less: cash and cash equivalents	301	98
Net debt	(2,690)	(2,662)
Regulatory capital value (RCV)	4,171	3,980
Total capital	1,482	1,318
Less: unamortised bond costs	(6)	(6)
Total capital per bond covenants	1,476	1,312
Gearing ratio	65%	67%

As set out on page 19, 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

16. Provisions

	Restructuring provision £m	Dilapidation provision £m	Uninsured loss provision £m	Provision for loss on swap closure £m	Total £m
At 1 April 2011	14.7	2.0	6.8	1.9	25.4
Charged to income statement	-	0.1	3.6	-	3.7
Utilised in year	(4.2)	(0.1)	(2.5)	(0.1)	(6.9)
At 31 March 2012	10.5	2.0	7.9	1.8	22.2

Split as

Amounts to be utilised within one year	10.5	-	2.0	0.2	12.7
Amounts to be utilised after more than one year	-	2.0	5.9	1.6	9.5
At 31 March 2012	10.5	2.0	7.9	1.8	22.2

	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 – 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

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

17. Called-up share capital

	2012 £m	2011 £m
Authorised		
501,050,000 ordinary shares of £1 each	<u>501 1</u>	<u>501 1</u>
Allotted and fully paid		
309,876,374 ordinary shares of £1 each	<u>309 9</u>	<u>309 9</u>

18. Cash generated from operations

Reconciliation of operating profit to cash generated from operations

	2012 £m	2011 £m
Operating profit	191 4	227 5
Adjustments for		
- Depreciation and amortisation	150 0	144 6
- Changes in working capital		
Increase/(decrease) in trade and other receivables	27 3	(4 8)
Increase in trade and other payables	30 2	30 1
Pension contributions in excess of operating costs	(10 6)	(2 6)
Decrease in provisions	(1.1)	(6 6)
	<u>45 8</u>	<u>16 1</u>
Cash generated from operations	<u>387 2</u>	<u>388 2</u>

19. Analysis and reconciliation of net debt

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

	2012 £m	2011 £m
Cash and cash equivalents	299 1	97 0
Debt owed by parent company after one year	<u>320 5</u>	<u>370 5</u>
	619 6	467 5
Debt due after one year	(2,149 8)	(1,959 3)
Debt due within one year	(65 4)	(14 6)
Finance leases	(734 1)	(741 8)
Accrued interest	<u>(40 9)</u>	<u>(45 0)</u>
	(2,990 2)	(2,760 7)
Net debt	<u>(2,370 6)</u>	<u>(2,293 2)</u>

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

	2012 £m	2011 £m
Net debt at start of year	(2,293 2)	(2,293 9)
Increase/(decrease) in net cash	202 1	(150 6)
(Increase)/decrease in debt	<u>(131.6)</u>	<u>187 4</u>
Decrease in net debt arising from cash flows	70 5	36 8
Movement in accrued interest	(46 4)	(1 1)
Indexation of index-linked debt	(52 1)	(48 1)
Repayment of loan to parent company	(50 0)	-
Accounting profit on lease termination	-	13 5
Other non-cash movements	0 6	(0 4)
Movement in net debt during the year	<u>(77 4)</u>	<u>0 7</u>
Net debt at end of year	<u>(2,370 6)</u>	<u>(2,293 2)</u>

Notes to the financial statements cont'd

20. Employees and directors

a) Directors' emoluments

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

	2012 £'000	2011 £'000
Salary (including benefits in kind)	1,247	1,207
Fees	<u>540</u>	<u>505</u>
	<u>1,787</u>	<u>1,712</u>
Long term incentive plan	<u>140</u>	<u>68</u>
Highest paid director (2012 and 2011 N C Annett)		
Aggregate emoluments	<u>491</u>	<u>473</u>
Accrued pension under defined benefit scheme	<u>127</u>	<u>117</u>
Long term incentive plan	<u>55</u>	<u>27</u>

Retirement benefits are accruing to three directors (2011 – three) under defined benefit schemes. None of the directors is a member of the defined contribution scheme (2011 – none)

Under the new Annual Variable Pay Scheme (AVPS), payment has been made in the current year equivalent to 26.0% of base salary for performance against the corporate Performance Scorecard, 33.6% for financial performance and 18% against Strategic and Personal Objectives, making a total payment in the range of 77.6%. This compared to a maximum of 100%. Under the Long Term Variable Pay Scheme (LTVPS) provision has been made for a 20% staged payment of the Customer Equity element of the scheme, reflecting a strong financial performance in the first two years of the regulatory period 2010-2015, but no provision was made for a Customer Service award. (Further details are provided in the 2012 Remuneration Report which forms part of Glas Cymru's 2012 Report and Accounts.) The 2011-12 accounts include an accrual for an interim payment of £140,180 (equivalent to 20% 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 £525,170 in respect of 2010-11 as accrued at 31 March 2011 was paid in May 2011 following the publication of Ofwat's OPA performance report for 2010-11.

b) Staff costs during the year

	2012 £m	2011 £m
Wages and salaries	67.1	57.5
Social security costs	5.4	4.5
Other pension costs	<u>7.0</u>	<u>10.0</u>
	<u>79.5</u>	<u>72.0</u>
Average monthly number of people (including executive directors) employed by the group		
	2012 Number	2011 Number
Regulated water and sewerage activities	<u>1,931</u>	<u>1,727</u>

Of the above, £21.4m (2011: £22.3m) has been capitalised.

Notes to the financial statements cont'd

21. 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.

Defined benefit scheme

A full actuarial valuation of the scheme was undertaken as at 31 March 2011 by Robert Davies of Quantum Advisory, an independent, professionally qualified actuary, using the projected unit method. This valuation has been updated at 31 March 2012 and the principal assumptions made by the actuaries were:

	2012	2011
Discount rate	5.0%	5.5%
Inflation assumption	3.2%	3.3%
Rate of increase in pensionable salaries	3.7%	4.3%
Rate of increase in pensions in payment	3.1%	3.1%
Post retirement mortality (life expectancy)		
- Current pensioners aged 65 - males	87.7 yrs	87.0 yrs
- Current pensioners aged 65 - females	90.4 yrs	89.9 yrs
- Future pensioners aged 65 (currently aged 45) - males	90.7 yrs	88.1 yrs
- Future pensioners aged 65 (currently aged 45) - females	93.3 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:

	Expected	2012	Expected	2011
	return	% of total	return	% of total
		assets		assets
Equities	6.5%	50.8%	7.5%	55.2%
Bonds	5.0%	13.0%	5.0%	12.6%
Other	3.0%	36.1%	3.0%	32.2%

Notes to the financial statements cont'd

21. Pension commitments cont'd

The amounts recognised in the income statement are as follows

	2012 £m	2011 £m
Current service cost (excluding member contributions)	8 9	8 6
Past service cost	1 5	4 9
Effect of curtailments or settlements	-	-
	<u>10.4</u>	<u>13 5</u>
Utilisation of restructuring provision	(2 1)	(4 9)
Total included within staff costs	<u>8 3</u>	<u>8 6</u>
Interest cost	13.3	7 9
Expected return on plan assets	(13 2)	(8 7)
Total included within interest payable and similar charges	<u>0 1</u>	<u>(0 8)</u>
Total recognised in the Income Statement	<u>8.4</u>	<u>7 8</u>

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

	2012 £m	2011 £m
Actuarial loss on plan assets	(9 5)	(8 2)
Actuarial (loss)/gain on defined benefit obligation	(16 3)	3 5
Total recognised in the Statement of Comprehensive Income	<u>(25 8)</u>	<u>(4 7)</u>

The amounts recognised in the balance sheet are determined as follows

	2012 £m	2011 £m
Present value of funded obligations	(272 8)	(238 6)
Plus unrecognised prior service costs	0 1	0 2
Fair value of plan assets	240 8	222 9
Net liability recognised in the Balance Sheet	<u>(31 9)</u>	<u>(15 5)</u>

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

	2012 £m	2011 £m
At 1 April	238 6	55 2
Current service cost	9 3	8 6
Employee contributions	0 4	0 3
Past service cost (vested benefits)	1 0	4 7
Interest cost	13 3	7 9
Benefits paid (net of transfers in)	(6 1)	(2 2)
Settlement	-	167 7
Actuarial loss	16 3	(3 6)
At 31 March	<u>272 8</u>	<u>238 6</u>

Notes to the financial statements cont'd

21. Pension commitments cont'd

Changes in the fair value of plan assets are as follows

	2012 £m	2011 £m
At 1 April	222.9	46.8
Expected return on plan assets	13.2	8.7
Employer contributions	19.9	10.9
Employee contributions	0.4	0.2
Benefits paid (net of transfers in)	(6.1)	(2.2)
Settlement	-	166.7
Actuarial loss on plan assets	(9.5)	(8.2)
At 31 March	<u>240.8</u>	<u>222.9</u>

Analysis of the movement in the Balance Sheet liability

	2012 £m	2011 £m
At 1 April	15.5	8.0
Total charge to Income Statement (including utilisation of restructuring provision)	10.5	12.7
Total charge to Statement of Comprehensive Income	25.8	4.7
Bulk transfer (net liability)	-	1.0
Contributions paid (excluding member contributions)	(19.9)	(10.9)
At 31 March	<u>31.9</u>	<u>15.5</u>

Cumulative actuarial gains and losses recognised in equity

	2012	2011	2010	2009	2008
Experience adjustments arising on scheme assets					
Amount (£m)	(9.5)	(8.2)	10.0	(9.3)	(4.7)
Percentage of scheme assets	(4%)	(4%)	21%	(29%)	(12%)
Experience adjustments arising on scheme liabilities					
Amount (£m)	(34.6)	3.6	11.5	(1.1)	8.0
Percentage of the present value of scheme liabilities	(13%)	2%	21%	(3%)	22%
Present value of scheme liabilities (£m)	272.8	238.4	54.8	40.1	36.8
Fair value of scheme assets (£m)	240.8	222.9	46.8	32.3	38.8
(Deficit)/surplus (£m)	(31.9)	(15.5)	(8.0)	(7.8)	2.0

The contributions paid in the year to 31 March 2012 include a special contribution of £2.6m (2011: £2.6m). A further £8.0m was paid into the scheme to augment the benefits in respect of scheme members who left the company via selective voluntary severance (2011: nil). The contribution expected to be paid in line with the extant schedule of contributions during the financial year ended 31 March 2013 amounts to £2.6m.

Notes to the financial statements cont'd

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 £2.7m (2011: £2.2m) in respect of distributions from the Elan Valley Trust Fund.

Notes to the financial statements cont'd

22. 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 (2011: £192m) notional. As at 31 March 2012, the mark to market value of this interest rate swap was £79m (2011: £44m), and the interest rate and maturity of the swap are 5.67% and 19 years (2011: 5.67% and 20 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.

23. Capital and other financial commitments

The company's business plan at 31 March 2012 shows net capital expenditure and infrastructure renewals expenditure of £310m (2011: £273m) 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.

24. 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 £143.6m (2011: £144.6m).

25. 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.