UK Registered Nº FC23222
Cayman Islands Registered Nº 108127

Dŵr Cymru (Financing) Limited

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

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Directors’ report and business review

The directors have pleasure in presenting their annual report to the shareholder, together with the audited financial statements for the year to 31 March 2009 on pages 5 to 20.

Principal activity
The principal activity of the company is that of an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig.

Results for the year
The loss on ordinary activities before taxation amounted to £24,123,000 (2008: profit of £8,669,000). No dividend was declared or paid during the year (2008: £nil).

Business Review
The company continues to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig (“DCC”), the only trading subsidiary in the Glas Cymru group.

Despite very difficult conditions in the banking and capital markets, the company has raised £100 million additional finance from the European Investment Bank (“EIB”) during the year to help fund DCC’s capital investment programme in the five years to 31 March 2010. £25 million of this loan facility was drawn on 15 December 2008 and on-lent to DCC; the remaining £75 million remains available to be drawn and on-lent to DCC until 22 April 2010.

The company has a high degree of liquidity available to be drawn and on-lent to DCC in addition to the EIB facility above. The company has a committed syndicated revolving credit facility of £305 million from a syndicate of banks comprising Royal Bank of Scotland plc, Barclays Bank plc, Bayerische Landesbank, HSBC Bank plc, Ing Bank N.V., Norddeutsche Landesbank Girozentrale and Sumitomo Mitsui Banking Corporation Europe Limited. This facility is available to be drawn until 30 September 2011. In addition, the company has a bilateral facility of £40 million with Fortis Bank S.A./N.V. which is available to be drawn until 30 June 2012.

In view of this high level of liquidity, totalling £420 million, and DCC’s cash balances of £138 million at 31 March 2009, the company has not raised further bond finance this year.

The current ratings of the company’s bonds are summarised in the following table:

Bond Class	Moody’s	S&P	Fitch
A	A3	A	A
B	A3	A	A
C	Baa2	BBB+	BBB+

The rating of the Class A bonds, which have the benefit of a financial guarantee from MBIA, are the higher of the underlying ratings of these bonds (A3/A/A) and the rating of MBIA (B3/BBB+/-).

There have been no changes to the ratings of the Class B or Class C bonds during the year.

The company’s listed bonds have continued to trade at wide spreads over Government gilts as a consequence of the difficult conditions in the banking and capital markets. The bonds have however continued to trade regularly at margins below many other equivalent water sector bonds of similar maturities.

Principal Risks and Uncertainties
From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of the Glas Cymru Group, which include those of the company, are disclosed on within the group's annual report which does not form part of this report.

Key Performance Indicators ('KPIs')

The directors of the Glas Cymru Cyfyngedig Group manage the group's operations on an overall basis. For this reason, the company's directors believe that analysis using KPIs is neither necessary nor appropriate for an understanding of the development, performance or position of the business of Dŵr Cymru (Financing) Limited. The development, performance and position of the group, which includes the company, are discussed within the group's annual report which does not form part of this report.

Directors

The directors, who served throughout the year, were C A Jones and N C Annett.

Auditors

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

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

By order of the Board

R G Curtis
Company Secretary

5 June 2009

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 financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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

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

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

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

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

By order of the Board

R G Curtis
Company Secretary

5 June 2009

Independent auditors' report to the members of Dŵr Cymru (Financing) Limited

We have audited the financial statements of Dŵr Cymru (Financing) for the year ended 31 March 2009, which comprise the income statement, the statement of changes in shareholder's equity, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the directors' responsibilities for the financial statements (page 4).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cardiff

5 June 2009

Income statement for the year ended 31 March 2009

	Note	£'000	2009 £'000	£'000	2008 £'000
Financing costs:					
- Interest payable and similar charges	2a	**(89,871)**		(88,661)	
- Interest receivable	2a	**90,063**		121,512	
- Fair value losses on derivative financial instruments	2b	**(24,315)**		(24,182)	
			(24,123)		8,669
Profit before taxation			**(24,123)**		8,669
Taxation credit/(charge)	4		**6,754**		(2,851)
(Loss)/profit for the year			**(17,369)**		5,818

	Note	£'000	2009 £'000	£'000	2008 £'000
Profit after tax excluding fair value losses on derivative financial instruments			138		23,229
Impact of fair value losses on derivative financial instruments (including taxation effect)	2b		(17,507)		(17,411)
(Loss)/profit for the year			**(17,369)**		5,818

All operations are continuing.

The company has no other recognised gains or losses in the period (2008: nil) and accordingly a statement of recognised income and expenses has not been presented.

Statement of changes in shareholder's equity for the year ended 31 March 2009

	Share capital £'000	Retained earnings £'000	Total reserves £'000
At 31 March 2007	30	(44,013)	(43,983)
Profit for the year	-	5,818	5,818
At 31 March 2008	**30**	**(38,195)**	**(38,165)**
Loss for the year	-	(17,369)	(17,369)
At 31 March 2009	**30**	**(55,564)**	**(55,534)**

Balance sheet at 31 March 2009

	Note	2009 £'000	2008 £'000
Assets			
Non-current assets			
Deferred tax asset	12	**22,765**	16,011
Financial assets:			
- loans to group undertakings	5	**1,823,175**	1,761,646
		1,845,940	1,777,657
Current assets			
Financial assets:			
- loans to group undertakings	5	**5,052**	5,290
- derivative financial instruments	10	**11,788**	4,226
Cash and cash equivalents	6	**883**	452
Other receivables	7	**-**	236
		17,723	10,204
Liabilities			
Current liabilities			
Trade and other payables	8	**(138)**	(370)
Financial liabilities:			
- borrowings	9	**(4,914)**	(4,917)
- derivative financial instruments	10	**(1,442)**	(1,493)
		(6,494)	(6,780)
Net current assets		**11,229**	3,424
Non-current liabilities			
Financial liabilities:			
- borrowings	9	**(1,823,175)**	(1,761,646)
- derivative financial instruments	10	**(89,528)**	(57,600)
		(1,912,703)	(1,819,246)
Net liabilities		**(55,534)**	(38,165)
Shareholder's equity			
Called up share capital	13	**30**	30
Deficit		**(55,564)**	(38,195)
Total reserves		**(55,534)**	(38,165)

The financial statements on pages 5 to 20 were approved by the Board of directors on 5 June 2009 and were signed on its behalf by:

N C Annett
Managing Director

C A Jones
Finance Director

Cash flow statement for the year ended 31 March 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Interest received		**90,299**	121,482
Interest paid		**(90,103)**	(175,513)
Net cash inflow/(outflow) from operating activities		**196**	(54,031)
Net cash inflow/(outflow) before financing activities		**196**	(54,031)
Cash flows from financing activities			
Net (repayment)/receipt of intercompany loan		**(20,390)**	58,444
Long term loans received		**25,000**	-
Long term loans repaid		**(4,375)**	(4,375)
Net cash generated from financing activities		**235**	54,069
Increase in net cash	14	**431**	38
Net cash at 1 April		**452**	414
Net cash at 31 March	6	**883**	452

Principal accounting policies

Basis of Preparation

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

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

Accounting policies for the year ended 31 March 2009

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

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.

Financial liabilities

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

Financial assets

Financial assets represent held to maturity investments that are non-derivative, with fixed or determinable payments and fixed maturities of over three months at the date of acquisition, which the group intends to hold until maturity. In addition, financial assets represent loans to group companies that the company makes in its capacity as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig.

Financial assets are held at amortised cost.

Derivative financial instruments

Derivative instruments utilised by the company are interest rate, inflation and currency swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group.

Derivatives are recognised initially and subsequently re-measured at fair value.

During the year to 31 March 2009, none of the company's derivatives qualified for hedge accounting under IAS 39 (2008: none). These instruments are carried at fair value through profit or loss with changes in fair value being recognised immediately in the income statement.

Principal accounting policies cont'd

Deferred taxation

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

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

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

Financing risk management objectives and policies

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

Credit risk

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

The group has continued to follow a cautious policy for investing cash deposits as a response to the situation in the banking market. In consequence, with the exception of the group's clearing bank (which has a long-term rating of A+/A3/AA-), all new cash investments must meet the minimum long term rating and have a maximum investment period of one month. The maximum cash investment with a single counterparty was £69m (2008: £25m).

Interest rate and currency risk

The company minimises exposure to currency risk in respect of any foreign currency denominated borrowings by using appropriate derivative instruments to hedge these liabilities into sterling obligations.

The company hedges at least 85% of its total outstanding financial liabilities, including finance leases, into either index-linked or fixed rate obligations. For this purpose interest rate liabilities on floating rate 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 expose the group 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. All of the company's borrowings of £1,828m as at 31 March 2009 (2008: £1,767m) were fixed as index-linked, after taking into account the company's interest rate and RPI swaps. The company therefore considers overall interest rate exposure at the balance sheet date to be minimal. The 'hedges' established to manage these 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.

The company minimises exposure to currency risk in respect of any foreign currency denominated borrowings by using appropriate derivate instruments to hedge those liabilities into sterling obligations. There were no foreign currency borrowings as at 31 March 2009 (2008: none).

Refinancing risk

Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of currencies, instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy, no more than 20% of the principal of group borrowings of £2,760m can fall due in any 24 month period.

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 2009, the group had committed undrawn borrowing facilities of £420m (2008: £345m) and cash and cash equivalents (excluding debt service payments account) of £124m (2008: £112m).

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

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

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

In respect of the risks detailed above, further quantitative disclosures are provided in note 11.

1. Segmental information

The company's business is solely to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig and therefore it operates in a single segment.

2. Finance costs

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

	2009 £'000	2008 £'000
Interest payable on loans	**(89,871)**	(88,661)
Interest receivable:		
- intercompany (including payment for swap termination)	**90,034**	121,483
- external	**29**	29
	90,063	121,512
Net interest receivable before fair value adjustments	**192**	32,851

b) Fair value losses on derivative financial instruments

Whilst the company employs an economically effective policy using interest rate and currency swaps, this policy does not satisfy the stringent hedge accounting criteria of IAS 39. Consequently, the company's interest rate and currency swaps are fair valued at each balance sheet date with the movement (net gain or loss) disclosed in the income statement. Over the life of these swaps, providing that there is an effective match, these fair value adjustments will reverse and reduce to zero. (See note 10 for balance sheet note in respect of derivative financial instruments).

	2009 £'000	2008 £'000
Fair value losses on interest rate swaps	**(24,315)**	(24,182)
Deferred tax effect at 28% (2008: 28%) of fair value losses	**6,808**	6,771
	(17,507)	(17,411)

3. (Loss)/profit before taxation

Services provided by the company's auditor
Audit fees of £5,000 (2008: £5,000) have been borne by a fellow group company.

4. Taxation

	2009 £'000	2008 £'000
Current tax		
- Adjustment in respect of prior years	**-**	1,369
Deferred tax		
- Current year movements	**(6,754)**	1,593
- Adjustment in respect of prior years	-	(1,369)
- Effect of tax rate change	-	1,258
Taxation (credit)/charge	**(6,754)**	2,851

4. Taxation cont'd

The tax for the period is the same as (2008: higher than) the standard rate of corporation tax in the UK (2009: 28%; 2008: 30%)). The differences are explained below:

	2009 £'000	2008 £'000
(Loss)/profit before tax	**(24,123)**	8,669
(Loss)/profit before tax multiplied by the corporation tax rate in the UK of 28% (2008: 30%)	**(6,754)**	2,601
Effects of:		
Effect of tax rate change	**-**	1,144
Group relief for no consideration	**-**	(894)
Total taxation (credit)/charge	**(6,754)**	2,851

5. Financial assets

	2009 £'000	2008 £'000
Non-current		
Loans to group undertakings	**1,823,175**	1,761,646
Current		
Loans to group undertakings	**5,052**	5,290

6. Cash and cash equivalents

	2009 £'000	2008 £'000
Short-term deposits	**883**	452

The interest rate on the short-term deposit as at 31 March 2009 was 0.4% (2008: 5.8%) and this deposit had a maturity of 16 days (2008: 4 days).

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-/A3/AA- each for S&P, Moody's and Fitch respectively. The Board reviews counterparties for cash investments and the credit limit assigned to each annually.

7. Other receivables

	2009 £'000	2008 £'000
Accrued interest receivable	-	236

8. Other payables

	2009 £'000	2008 £'000
Accrued interest payable	138	370

9. Financial liabilities – borrowings

Current	2009 £'000	2008 £'000
Bonds	539	542
European Investment Bank loans	4,375	4,375
	4,914	4,917

Non-current	2009 £'000	2008 £'000
Bonds	1,676,300	1,635,396
European Investment Bank loans	146,875	126,250
	1,823,175	1,761,646

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the company's bond programme for the benefit of holders of senior bonds 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 undertakings, to the extent permitted by the Water Industry Act, other applicable law and its licence; and

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

10. Derivative financial instruments

All derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. As such, movements in their fair values are taken to the Income Statement (see note 2b).

2009	**Fair values**	
	Assets	**Liabilities**
	£'000	**£'000**
Current		
Index-linked swaps	**4,382**	**(1,442)**
Interest rate swaps	**7,406**	**-**
	11,788	**(1,442)**
Non-current		
Index-linked swaps	**-**	**(27,604)**
Interest rate swaps	**-**	**(61,924)**
	-	**(89,528)**
Total	**11,788**	**(90,970)**

2008	**Fair values**	
	Assets	**Liabilities**
	£'000	**£'000**
Current		
Index-linked swaps	4,226	(1,397)
Interest rate swaps	-	(96)
	4,226	(1,493)
Non-current		
Index-linked swaps	-	(32,476)
Interest rate swaps	-	(25,124)
	-	(57,600)
Total	4,226	(59,093)

The notional values of the swaps are: interest rate swaps - £192m (2008: £192m); index-linked swaps - £100m (2008: £100m).

In accordance with IAS 39, "Financial instruments: recognition and measurement", Dŵr Cymru (Financing) Limited 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 (Financing) Limited has no embedded derivatives as per IAS 39.

Index-linked swaps

The index-linked swaps have the effect of index-linking the interest rate on £100 million of fixed rate bonds by reference to the retail price index ("RPI").

The principal terms are as follows:

Indexed notional amount:	£111 million
Swap maturity:	48 years
Interest rate:	1.35% (indexed by RPI)

11. Financial risk management

The policies of the group in respect of financial risk management are included in the accounting policies note on page 10. The numerical financial instrument disclosures as required by IFRS 7 are set out below

a) Interest rate risk

The effective interest rates at the balance sheet dates were as follows:

	2009	2008
Assets:		
Cash and cash equivalents	**0.4%**	5.8%
Amounts owed by group undertakings	**5.2%**	5.5%
Liabilities:		
Bonds	**5.6%**	5.5%
European Investment Bank loans	**2.1%**	6.1%

Other receivables and payables are non-interest bearing.
The effective interest rates ignore the effect of the interest rate swaps set out in note 10.

b) Liquidity risk

2009	**Within 1 year £'000**	**1 - 2 years £'000**	**2 - 5 years £'000**	**> 5 years £'000**	**Total £'000**
Assets:					
Cash and cash equivalents	883	-	-	-	883
Financial assets - loan to group undertakings	5,052	134,478	42,174	1,646,523	1,828,227
	5,935	134,478	42,174	1,646,523	1,829,110
Liabilities:					
Bonds	539	125,557	1,773	1,548,970	1,676,839
European Investment Bank loans	4,375	8,921	40,401	97,553	151,250
Other payables	138	-	-	-	138
	5,052	134,478	42,174	1,646,523	1,828,227

The Bonds maturing between 1-2 years are £125 million of subordinated bonds with an expected maturity date of 31 March 2011. If these Bonds are not redeemed on or before 31 March 2011, the interest rate will step-up from a fixed rate of 8.174% to a floating 3 -month LIBOR interest rate plus a margin 5.75%.

2008	**Within 1 year £'000**	**1 - 2 years £'000**	**2 - 5 years £'000**	**> 5 years £'000**	**Total £'000**
Assets:					
Cash and cash equivalents	452	-	-	-	452
Financial assets - loan to group undertakings	5,290	4,914	162,573	1,594,159	1,766,936
Financial assets - other receivables	236	-	-	-	236
	5,978	4,914	162,573	1,594,159	1,767,624
Liabilities:					
Bonds	542	539	126,721	1,508,136	1,635,938
European Investment Bank loans	4,375	4,375	35,852	86,023	130,625
Other payables	370	-	-	-	370
	5,287	4,914	162,573	1,594,159	1,766,933

11. Financial risk management cont'd

c) Fair values

The following table sets out the fair value of the company's financial assets and liabilities, other than the fair value of derivative financial instruments, which are set out in note 10.

	2009		2008	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Fair value of other financial assets:				
- cash and cash equivalents	**883**	**883**	452	452
- finance assets - loans to group undertakings (note 5)	**1,828,227**	**1,754,405**	1,766,936	1,908,913
Fair value of other financial liabilities:				
- European Investment Bank loans (note 9)	**151,250**	**151,250**	130,625	130,625
- bonds (note 9)	**1,676,839**	**1,603,017**	1,635,938	1,778,288
- other payables (note 8)	**138**	**138**	370	370

d) Borrowing facilities

The company has the following undrawn committed borrowing facilities available at 31 March 2009, in respect of which all conditions precedent had been met at that date:

	2009	2008
	£'000	£'000
Expiring in more than 2 years:		
- revolving credit facilities	**420,000**	345,000

The company also has a special liquidity facility of £150 million, which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through the operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that the company defaults on its debt financing covenants. The facility is renewable on an annual basis.

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

e) Capital risk management

Gearing ratios (group)

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

As set out on page 12, the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV. The decrease in the gearing ratio during the year to 31 March 2009 is the result of increases in the RCV exceeding the rise in net debt.

12. Deferred tax asset

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

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

	2009	2008
	£'000	£'000
At 1 April	**16,011**	17,493
Income statement credit/(charge)	**6,754**	(1,482)
At 31 March	**22,765**	16,011

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

	2009	2008
	£'000	£'000
Tax losses and other temporary differences	**22,765**	16,011
Deferred tax asset	**22,765**	**16,011**

13. Called up share capital

	2009	2008
	£'000	£'000
Authorised		
50,000 ordinary shares of £1 each	**50**	50
Allotted, called up and fully paid		
30,000 ordinary shares of £1 each	**30**	30

14. Analysis and reconciliation of net funds

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

	2009 £'000	2008 £'000
Cash and cash equivalents	**883**	452
Fianncial assets:		
Group receivables	**1,828,227**	1,766,936
Other receivables	**-**	236
	1,829,110	1,767,624
Net accrued interest	**(138)**	(370)
Debt due after one year	**(1,823,175)**	(1,761,646)
Debt due within one year	**(4,914)**	(4,917)
	(1,828,227)	(1,766,933)
Net funds	**883**	691

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

	2009 £'000	2008 £'000
Net funds at start of period	**691**	1,724
Increase in net cash	**431**	38
Increase/(decrease) in group receivables	**61,291**	(29,997)
(Increase)/decrease in debt	**(20,625)**	4,375
Increase in net funds arising from cashflows	**41,097**	(25,584)
Amortisation of bond issue premium	**542**	533
Indexation of index-linked debt	**(41,443)**	(30,350)
Movement in accrued interest	**(4)**	54,368
Movement in net funds during the period	**192**	(1,033)
Net debt at end of period	**883**	691

15. Employees and directors

(a) Staff costs

The company had no employees during the year (2008: none).

(b) Directors' emoluments

There were no directors' emoluments in the year (2008: none).

16. Contingent assets and liabilities

Under the company's inter-company loan arrangements with Dŵr Cymru Cyfyngedig ("DCC"), DCC is liable 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 the company to DCC as fees under the intercompany loan arrangements.

On 10 May 2001, the company had entered into £625 million 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 the company. The floating rate borrowings and the interest rate swaps were matched and re-charged to DCC as fixed interest tranches of the intercompany loan of the same date.

The company's floating rate bonds, and the related fixed interest tranches of the intercompany loan, were repaid on 31 March 2005 (£100m), 30 June 2005 (£425m) and 31 March 2006 (£100m). The company'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 intercompany loan account, DCC paid fees to the company of £32.5m.

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

17. Related party transactions

The company received interest of £90,034,407 (2008: £121,482,960) from Dŵr Cymru Cyfyngedig, another member of the Glas Cymru Cyfyngedig group.

18. Directors' and officers' loans and transactions

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

19. 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.