UK Registered № FC23222
Cayman Islands Registered № 108127

Dŵr Cymru (Financing) Limited

Annual report and non-statutory financial statements for the year to 31 March 2015

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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 non-statutory financial statements for the year to 31 March 2015 on pages 6 to 22.

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

Going concern
The directors believe that preparation of the financial statements on a going concern basis is appropriate due to continued financial support from the ultimate parent company, Glas Cymru Cyfyngedig. The directors have received confirmation that Glas Cymru Cyfyngedig intends to support the company for at least one year after these financial statements are signed.

Results and dividends
The loss before taxation amounted to £92,349,000 (2014: profit of £29,636,000). No dividend was declared or paid during the year (2014: £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.

The company has a special £135 million liquidity facility (2014: £135 million) which is a requirement of the company's bond covenants; it can only be drawn in the event that the company is in default of its covenants and unable to pay its interest bills. The facility is renewable annually.

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

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 (B/Ba2/-).

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 within the group's annual report. Page 11 of this report refers to risk management of Treasury activities within the company.

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

Chris Jones and Peter Perry served as directors throughout the year. Peter Bridgewater was appointed director on 20 October 2014.

Disclosure of information to auditors

PricewaterhouseCoopers LLP acted as auditors to Dŵr Cymru (Financing) Limited for the non-statutory financial statements for the year ended 31 March 2015. As part of the audit process each director has confirmed, as at the date of these 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

KPMG LLP will be proposed as the company's auditor for the financial year ending 31 ~~December~~ March 2016 and a resolution relating to this appointment will be put to the company's shareholder.

By order of the Board

N Williams
Company Secretary

1 September 2015

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

N Williams
Company Secretary

1 September 2015

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

Report on the non-statutory financial statements

Our opinion

In our opinion, Dŵr Cymru (Financing) Limited's non-statutory financial statements (the 'financial statements'),:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and

What we have audited

Dŵr Cymru (Financing) Limited's financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the principal accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

<u>What an audit of financial statements involves</u>

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

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

Other matter
We draw attention to the fact that these financial statements have not been prepared under section 394 of the Companies Act 2006 and are not the company's statutory financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
1 September 2015

Income statement for the year ended 31 March 2015

	Note	£000	2015 £000	£000	2014 £000
Financing costs:					
- Finance cost	2a	**(96,314)**		(94,482)	
- Finance income	2a	**96,500**		94,675	
- Fair value (losses)/gains on derivative financial instruments	2b	**(92,535)**		29,443	
(Loss)/profit before taxation			**(92,349)**		29,636
Taxation	4		**18,471**		(10,869)
(Loss)/profit for the year			**(73,878)**		18,767

Underlying profit for the year (Profit before taxation and fair value adjustments)	Note	**2015 £000**	2014 £000
(Loss)/profit before taxation per the income statement	2a	**(92,349)**	29,636
Adjustment for:			
- Fair value losses/(gains) on derivative financial instruments	2b	**92,535**	(29,443)
Profit for the year before taxation and fair value adjustments		**186**	193

All operations are continuing.

The company has no other recognised gains or losses in the year (2014: £nil) and accordingly a statement of comprehensive income has not been presented.

Statement of changes in equity for the year ended 31 March 2015

	Called up share capital £000	**Accumulated losses £000**	**Total equity £000**
At 1 April 2013	30	(123,916)	(123,916)
Profit for the year	-	18,767	(18,767)
At 31 March 2014	30	(105,149)	(105,119)
Loss for the year	-	(73,878)	(73,878)
At 31 March 2015	**30**	**(179,027)**	**(178,997)**

Balance sheet as at 31 March 2015

	Note	2015 £000	2014 £000
Assets			
Non-current assets			
Deferred tax asset	11	**45,481**	27,032
Financial assets:			
- loans to group undertakings	5	**2,418,710**	2,241,962
		2,464,191	2,268,994
Current assets			
Financial assets:			
- loans to group undertakings	5	**12,208**	16,563
- derivative financial instruments	9	**3,676**	3,677
Cash and cash equivalents	6	**2,001**	1,811
Other receivables		**24**	4
		17,909	22,055
Liabilities			
Current liabilities			
Other payables	7	**(966)**	(639)
Financial liabilities:			
- borrowings	8	**(12,208)**	(16,563)
- derivative financial instruments	9	**(10,411)**	(10,398)
		(23,585)	(27,600)
Net current liabilities		**(5,676)**	(5,545)
Non-current liabilities			
Financial liabilities:			
- borrowings	8	**(2,417,747)**	(2,241,324)
- derivative financial instruments	9	**(219,765)**	(127,244)
		(2,637,512)	(2,368,568)
Net liabilities		**(178,997)**	(105,119)
Equity			
Called up share capital	12	**30**	30
Accumulated losses		**(179,027)**	(105,149)
Total deficit		**(178,997)**	(105,119)

The non-statutory financial statements on pages 6 to 22 were approved by the Board of directors on 1 September 2015 and were signed on its behalf by:

C A Jones
Director

P J Bridgewater
Director

Cash flow statement for the year ended 31 March 2015

	Note	2015 £000	2014 £000
Cash flows from operating activities			
Interest received		**96,500**	94,675
Interest paid		**(95,987)**	(145,000)
Net cash generated from/(used in) operating activities		**513**	(50,325)
Cash flows from financing activities			
Intercompany loan repaid		**(144,357)**	(10,921)
Long-term loans received		**160,000**	75,000
Long-term loans repaid		**(15,966)**	(13,466)
Net cash (used in)/generated from financing activities		**(323)**	50,613
Increase in net cash and cash equivalents	13	**190**	288
Cash and cash equivalents at 1 April		**1,811**	1,523
Cash and cash equivalents at 31 March	6	**2,001**	1,811

Principal accounting policies

Basis of preparation
These non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) 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.

The preparation of financial statements to 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.

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 12	Disclosure of interests in other entities
IAS 32	Financial Instruments; Presentation (amendment)
IAS 39	Financial Instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting

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.

Accounting policies for the year ended 31 March 2015
The principal accounting policies adopted in the preparation of these non-statutory 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.

Principal accounting policies (cont'd)

Derivative financial instruments
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. The fair values of derivative financial instruments are provided by swap counterparties. The Bloomberg financial dataset platform allows management to perform an independent valuation of these contracts which is then compared to the counterparty confirmations. In addition the external auditors perform a separate independent valuation exercise of derivative financial instruments. There has been no change in the valuation techniques employed for the valuation of derivative financial instruments during this accounting period.

During the year to 31 March 2015, none of the company's derivatives qualified for hedge accounting under IAS 39 (2014: none). These instruments are carried at fair value through profit or loss with changes in fair value being recognised immediately in the income statement.

Fair value estimation
In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Group are categorised into different levels

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

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

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

All of the Group's trading and treasury derivatives are categorised at Level 2 and as at 31 March 2015 were valued as follows:

Assets: Trading derivatives £0.0 million, Treasury derivatives £3.7 million. (March 2014: Trading derivatives £0.0 million, Treasury derivatives £3.7 million).

Liabilities: Treasury derivatives £230.2 million. (March 2014: Treasury derivatives £137.6 million).

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

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

Level 2 debt investments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.
There were no transfers between levels 1 and 2 during the year.

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 substantively enacted at the balance sheet date (2015: 20%, 2014: 20%).

Inflation and interest rate swaps hedge borrowings in the company and are held to the maturity of the corresponding borrowing. Deferred tax credits in respect of these instruments will be recovered as the carrying amount of the liability is recovered/settled.

Principal accounting policies (cont'd)

Treasury activities are managed at a group level 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, set by the bond documentation within the Common Terms Agreement. Deposits of up to one year can be placed with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively, or with our account bank, National Westminster Bank plc. Deposits of over one year should be placed with counterparties that carry a minimum rating of AA-/Aa3/AA-. In practice, the company has adopted a more prudent approach to cash management and deposits are placed for a maximum of six months.

The policies contained within the group's bond documetation determine that all borrowings raised through the company are immediately on-lent to the operating company. Dŵr Cymru Cyfyngedig, on an arm's length basis. Total borrowings at 31 March 2015 amounted to £2,430m (2014: 2,258m). Cash and cash equivalents in the company of £2m (2014: £2m) cannot be used for water and wasteater operations wihin the group; consequently sensitivity analysis or concentration of risk analysis is not deemed necessary or appropriate.

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

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £2,430m as at 31 March 2015 (2014: £2,258m), none related to floating rate debt (2014: none). The group 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.

Refinancing risk
Refinancing risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of instruments, types and maturities. 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 £3,026m (2014: £2,910m) can fall due in any 24 month period.

Liquidity risk
The group maintains committed banking facilities in order to provide flexibility in the management of 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 2015, the group had committed undrawn borrowing facilities of £190m (2014: £140m) and cash and cash equivalents (excluding debt service payments account) of £72m (2014: £73m).

The company has existing (since May 2011) revolving credit facilities in place with five banks totalling £120 million, £60 million of which will expire in May 2020. The remaining £60 million is available until August 2019 with an option to extend (subject to the consent of each of the providers) for a further year to 2020.

Principal accounting policies (cont'd)

As at 31 March 2015 there was also a special liquidity facility of £135m (2014: £135m); this is required in order to meet certain interest and other obligations that cannot be funded through operating cash flow in the event of a standstill being declared by the Security Trustee, following an event of default under the group's debt financing covenants.

Capital risk management
The group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the group operates, the group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the group's borrowing covenants) as a proportion of its Regulatory Capital Value (RCV) as linked to movements in the Retail Prices Index and determined by Ofwat. As at 31 March 2015 gearing was 60% (2014: 63%).

Financial instruments – concentration of risk
The company has two swaps: a £192 million floating-to-fixed interest rate swap maturing in 2031 and a £100 million fixed-to-RPI swap maturing in 2057. The swaps provide hedges that achieve the desired economic effect, but these swaps are not exact hedges under IAS39.

Counterparty risk
Both swaps are held with the same counterparty and are significantly 'out of the money' (from the company's perspective). Therefore there is no risk that the counterparty will be unable to meet its obligations in the foreseeable future. In the event of swaps being 'in the money' from the company's perspective the counterparty is obliged to post collateral. There is no requirement to post collateral on the part of the company if the swaps are 'out of the money'.

All swaps are held in sterling and as such are not exposed to significant geographical, currency or market risk outside the UK.

In respect of the risks detailed above, further quantitative disclosures are provided in note 10.

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. Net finance costs

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

	2015	2014
	£000	£000
Interest payable on loans	**(96,314)**	(94,482)
Interest receivable:		
- intercompany (note 16)	**96,499**	94,667
- external	**1**	8
	96,500	94,675
Net interest receivable before fair value adjustments	**186**	193

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

	2015	2014
	£000	£000
Fair value (losses)/gains on derivative financial instruments	**(92,535)**	29,443

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 inflation 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 9 in respect of derivative financial instruments held on the balance sheet.)

3. (Loss)/profit before taxation

Services provided by the company's auditor
Audit fees of £5,000 (2014: £5,000) have been borne by a fellow group company.

4. Taxation

	2015	2014
	£000	£000
Corporation tax		
Group relief surrendered	**22**	-
Deferred tax		
- current year movements	**18,449**	(10,869)
Taxation credit/(charge)	**18,471**	(10,869)

4. Taxation (cont'd)

The taxation (credit)/charge for the year is lower than (2014: higher than) the standard rate of corporation tax in the UK (2015: 21%, 2014: 23%):

	2015 **£000**	2014 £000
(Loss)/profit before taxation	**(92,349)**	29,636
(Loss)/profit before taxation multiplied by the corporation tax rate in the UK of 21% (2014: 23%)	**(19,393)**	6,816
Effect of tax rate change	**922**	4,053
Total taxation (credit)/charge	**(18,471)**	10,869

5. Financial assets

	2015 **£000**	2014 £000
Non-current		
Loans to group undertakings	**2,418,710**	2,241,962
Current		
Loans to group undertakings	**12,208**	16,563

6. Cash and cash equivalents

	2015 **£000**	2014 £000
Short-term deposits	**2,001**	1,811

The effective interest rate on short-term deposits as at 31 March 2015 was 0.6% (2014: 0.5%) and these deposits had an average maturity of 1 day (2014: 2 days).

7. Other payables

	2015 **£000**	2014 £000
Accrued interest payable	**966**	639

8. Financial liabilities – borrowings

	2015 £000	2014 £000
Current		
Bonds	617	597
European Investment Bank loans	11,591	15,966
	12,208	16,563
Non-current		
Bonds	2,012,747	1,984,733
European Investment Bank loans	405,000	256,591
	2,417,747	2,241,324

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 the company's assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

9. 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). 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.

2015	Fair values	
	Assets £000	Liabilities £000
Current		
Index-linked swaps	3,676	(881)
Interest rate swaps	-	(9,530)
		(10,411)
Non-current		
Index-linked swaps	-	(121,578)
Interest rate swaps	-	(98,187)
	-	(219,765)
Total	3,676	(230,176)

9. Derivative financial instruments (cont'd)

2014	Fair values Assets £000	Liabilities £000
Current		
Index-linked swaps	3,677	(852)
Interest rate swaps	-	(9,546)
	3,677	(10,398)
Non-current		
Index-linked swaps	-	(67,361)
Interest rate swaps	-	(59,883)
	-	(127,244)
Total	3,677	(138,182)

The notional values of the swaps are: interest rate swaps - £192m (2014: £192m); index-linked swaps - £100m (2014: £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 such 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:	£131 million (2014: £128 million)
Swap maturity:	42 years (2014: 43 years)
Interest rate:	1.35% (indexed by RPI) (2014: 1.35%)

10. 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:

	2015	2014
Assets		
Cash and cash equivalents	**0.5%**	0.5%
Amounts owed by group undertakings	**4.6%**	4.7%
Liabilities		
Bonds	**5.0%**	5.1%
European Investment Bank loans	**0.9%**	1.0%

Other receivables and payables are non-interest bearing.
The effective interest rates ignore the effect of the interest rate swaps set out in note 9.

b) Liquidity risk

2015	**< 1 year £000**	**1–2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Assets					
Cash and cash equivalents	**2,001**	-	-	-	**2,001**
Financial assets:					
Loan to group undertakings	**12,208**	**20,978**	**72,930**	**2,324,802**	**2,430,918**
	14,209	**20,978**	**72,930**	**2,324,802**	**2,432,919**
Liabilities					
Bonds	**617**	**637**	**657**	**2,011,453**	**2,013,364**
European Investment Bank loans	**11,591**	**20,341**	**72,273**	**312,386**	**416,591**
Other payables	**966**	-	-	-	**966**
	13,174	**20,978**	**72,930**	**2,323,839**	**2,430,921**

2014	< 1 year £000	1–2 years £000	2-5 years £000	> 5 years £000	Total £000
Assets					
Cash and cash equivalents	1,811	-	-	-	1,811
Financial assets:					
Loan to group undertakings	16,563	12,208	93,191	2,132,439	2,254,401
	18,374	12,208	93,191	2,132,439	2,256,401
Liabilities					
Bonds	597	617	577	1,983,539	1,985,330
European Investment Bank loans	15,966	11,591	92,614	152,385	272,556
Other payables	639	-	-	-	639
	17,202	12,208	93,191	2,135,924	2,258,525

10. 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 9.

	2015 Book value £000	2015 Fair value £000	2014 Book value £000	2014 Fair value £000
Fair value of other financial assets				
- cash and cash equivalents	**2,001**	**2,001**	1,811	1,811
- loans to group undertakings (note 5)	**2,430,918**	**2,586,447**	2,258,525	2,442,086
Fair value of other financial liabilities				
- European Investment Bank loans (note 8)	**416,591**	**416,591**	272,557	272,557
- bonds (note 8)	**2,013,364**	**2,168,890**	1,985,330	2,168,890
- other payables (note 7)	**966**	**966**	639	639

d) Borrowing facilities

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

	2015 £000	2014 £000
Expiring in less than 1 year		
Term loan facility	-	-
	-	-
Expiring in more than 1 year		
Revolving credit facilities	**120,000**	140,000
	120,000	140,000
	120,000	140,000

At 31 March 2015 the company also had a special liquidity facility of £135m (2014: £135m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

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

The company had £120m of revolving credit facilities as of 31 March 2015, of which £60m of which will expire in May 2020. The remaining £60 million is available until August 2019 with an option to extend for a further year to 2020.

10. Financial risk management (cont'd)

e) Capital risk management

Gearing ratios (group)

	2015 £m	2014 £m
Total borrowings	**(3,027)**	(2,909)
Less: cash and cash equivalents	**148**	94
Net debt	**(2,879)**	(2,815)
RCV	**4,831**	4,468
Total capital	**1,952**	1,653
Less: unamortised bond costs	**(5)**	(5)
Total capital per bond covenants	**1,947**	1,648
Gearing ratio	**60%**	63%

While the company has no capital requirements, 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.

11. Deferred tax asset

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2014: 20%)

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

	2015 £000	2014 £000
At 1 April	**27,032**	37,901
Income statement credit/(charge)	**18,449**	(10,869)
At 31 March	**45,481**	27,032

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.

	2015 £000	2014 £000
Tax losses and other temporary differences	**45,481**	27,032
Deferred tax asset	**45,481**	27,032

12. Called up share capital

	2015 £000	2014 £000
Authorised		
50,000 (2014: 50,000) ordinary shares of £1 each	**50**	50
Allotted and fully paid		
30,000 (2014: 30,000) called up ordinary shares of £1 each	**30**	30

13. Analysis and reconciliation of net funds

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

	2015	2014
	£000	£000
Cash and cash equivalents	**2,001**	1,811
Financial assets:		
- group receivables	**2,430,918**	2,258,525
	2,432,919	2,260,336
Net accrued interest	**(966)**	(639)
Debt due after one year	**(2,417,747)**	(2,241,324)
Debt due within one year	**(12,208)**	(16,563)
	(2,430,921)	(2,258,526)
Net funds	**1,998**	1,810

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

	2015	2014
	£000	£000
Net funds at start of year	**1,810**	1,618
Increase in net cash	**190**	288
Increase in receivables	**172,392**	48,897
Increase in debt	**(144,064)**	(65,031)
Increase in net funds arising from cash flows	**28,518**	(15,846)
Amortisation of bond issue premium	**628**	591
Indexation of index-linked debt	**(28,632)**	(35,071)
Movement in accrued interest	**(326)**	50,518
Movement in net funds during the year	**188**	192
Net funds at the end of the year	**1,998**	1,810

14. Employees and directors

The emoluments of the directors are paid by the parent company which makes no recharge to the company. The directors of the parent company are directors of a number of fellow subsidiaries and it is not possible to make an accurate apportionment of his emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of directors. Total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the parent company.

15. Contingent assets and liabilities

Under the company's intercompany 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.

DCC remains liable, under the intercompany loan arrangements, for any future cash liabilities under the remaining interest rate swap of £192m (2014: £192m) notional. As at 31 March 2015, the mark-to-market value of this interest rate swap was £106m (2014: £69m), and the interest rate and maturity of the swap were 5.67% and 17 years (2014: 5.67% and 18 years) respectively.

16. Related party transactions

Company interest receivable from Dŵr Cymru Cyfyngedig, another member of the Glas Cymru Cyfyngedig group, was £96,499,143 during the year (2014: £94,666,906).

17. Immediate and ultimate holding company and controlling party

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.

Dŵr Cymru (Financing) Limited

Contact Address
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

Dŵr Cymru (Financing) Limited

UK Registered Office: Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY, United Kingdom

Cayman Islands Registered Office: PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands

Management responsibility statement of the Board of directors

To the best of our knowledge, the financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of Dŵr Cymru (Financing) Limited (the "Issuer").

To the best of our knowledge, the management report includes a fair view of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that we face.

September 2015

Director:
Name: Peter Jeremy Bridgewater

Director:
Name: Christopher Alun Jones