UK Registered № FC23222
Cayman Islands Registered № 108127

Dŵr Cymru (Financing) Limited

Annual report and financial statements for the year ended 31 March 2018

UK registered office
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

Cayman Islands registered office
PO Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

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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 2018 on pages 6 to 21.

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 Holdings Cyfyngedig. The Directors have received confirmation that Glas Cymru Holdings Cyfyngedig intends to support the Company for at least one year after these financial statements are signed.

Results and dividends
The profit before taxation amounted to £32,803,000 (2017: loss of £32,924,000). The result is a consequence of changes in the fair value of derivative financial instruments. No dividend was declared or paid during the year (2017: none).

Taxation
All tax payable by the Company is paid to HMRC in the UK.

Business review
The Company continues to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig, the primary trading subsidiary in the whole business securitisation Glas Cymru Holdings Cyfyngedig Group at 31 March 2018.

On 24 January 2018 the Company raised £300 million of bond finance at a fixed rate of 2.5%, the proceeds of which have been on-lent to Dŵr Cymru Cyfyngedig. The Bond will mature on 31 March 2036.

The Company has a special £135m liquidity facility (2017: £135m) 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	A2	A	A
B	A2	A	A

The ratings of the Class A bonds, which have the benefit of a financial guarantee from Assured Guaranty, are the higher of the underlying ratings of these bonds (A2/A/A) and the rating of Assured Guaranty (Baa2/A/NR).

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 Holdings Cyfyngedig Group ("the 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 Group manage its 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, Peter Perry and Peter Bridgewater served as Directors throughout the year.

Disclosure of information to auditors

KPMG LLP acted as auditors to Dŵr Cymru (Financing) Limited for the financial statements for the year ended 31 March 2018. 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 auditor is unaware, and (b) they have taken steps to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditors

KPMG LLP will be proposed as the Company's auditor for the financial year ending 31 March 2019 and a resolution relating to this appointment will be put to the Company's members.

By order of the Board

N Williams
Company Secretary

Registered office:
Pentwyn Rd,
Nelson,
Treharris,
Mid Glamorgan,
CF46 6LY

7 June 2018

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Dŵr Cymru (Financing) Limited Company financial statements, which are intended by them to give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. The directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU).

In preparing the financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable, relevant and reliable;
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assessed the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- used the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them

N Williams
Company Secretary

Registered office:
Pentwyn Road,
Nelson,
Treharris,
Mid Glamorgan,
CF46 6LY
7 June 2018

Independent auditor's report to Dŵr Cymru (Financing) Limited

1 Our opinion is unmodified

We have audited the financial statements of Dŵr Cymru (Financing) Limited ("the Company") for the year ended 31 March 2018 which comprise the Income statement, Statement of comprehensive income, Statement of changes in equity, Balance sheet, Cash flow statement and the related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006, as if those requirements were to apply.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements, including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2017):

Recoverability of loans to group undertakings
(£2.6bn; 2017: £2.3bn)
Refer to page [9] (accounting policy) and page [15] (financial disclosure)

The risk
Low risk, high value

The carrying amount of the loans to group undertakings balance represents 99.8% of the Company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the Company financial statements, this is considered to be the area that had the greatest effect on our overall Company audit.

Our response

Our procedures included:

- **Test of detail**: Assessing 100% of the loans to group undertakings to identify, with reference to the relevant undertakings' draft balance sheets, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those undertakings have historically been profit-making;
- **Assessing counterparty audits**: Assessing the work performed by the counterparty audit teams, and considering the results of that work, on those net assets, including assessing the liquidity of those assets and therefore the ability of the counterparties to fund the repayment of the loans.

3 Our application of materiality and an overview of the scope of our audit

The Company is part of a group headed by Glas Cymru Holdings Cyfyngedig. Materiality of £9.0m (2017: £10.0m), as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.35% of the Company's total assets (2017: 0.45%).

We agreed to report to the Audit Committee any corrected or uncorrected misstatements exceeding £450,000 (2017: £500,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the parent company's head office in Nelson, Treharris.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

6 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of financial statements, which are intended by them to give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

7 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the conclusions we have formed.

James Ledward
for and on behalf of KPMG LLP
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

7 June 2018

Income statement for the year ended 31 March 2018

	Note	£000	2018 £000	£000	2017 £000
Financing income/(costs):					
- Net interest receivable/(payable)	2	**32,803**		(32,924)	
Profit/(loss) before taxation			**32,803**		(32,924)
Taxation	4		**(5,577)**		4,684
Profit/(loss) for the year			**27,226**		(28,240)

All profits/(losses) are from continuing operations.

The Company has no other recognised gains or losses in the year (2017: none) and accordingly a statement of comprehensive income has not been presented.

The notes on pages 13 to 21 form part of the financial statements.

Statement of changes in equity for the year ended 31 March 2018

	Called up share capital £000	Accumulated losses £000	Total equity £000
At 1 April 2016	**30**	**(71,676)**	**(71,646)**
Loss for the year	-	(28,240)	(28,240)
At 31 March 2017	**30**	**(99,916)**	**(99,886)**
Profit for the year	-	27,226	27,226
At 31 March 2018	**30**	**(72,690)**	**(72,660)**

Balance sheet as at 31 March 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Deferred tax asset	11	**15,499**	21,076
Financial assets:			
- loans to group undertakings	5	**2,584,630**	2,256,242
- derivative financial instruments	9	**80,945**	84,386
		2,681,074	2,361,704
Current assets			
Financial assets:			
- loans to group undertakings	5	**24,348**	23,017
- derivative financial instruments	9	**12,516**	12,817
Cash and cash equivalents	6	**2,596**	2,401
		39,460	38,235
Liabilities			
Current liabilities			
Other payables	7	**(2,124)**	(788)
Financial liabilities:			
- borrowings	8	**(22,228)**	(22,228)
- derivative financial instruments	9	**(9,943)**	(10,088)
		(34,295)	(33,104)
Net current assets		**5,165**	5,131
Non-current liabilities			
Financial liabilities:			
- borrowings	8	**(2,544,678)**	(2,221,167)
- derivative financial instruments	9	**(214,221)**	(245,554)
		(2,758,899)	(2,466,721)
Net liabilities		**(72,660)**	(99,886)
Equity			
Called up share capital	12	**30**	30
Accumulated losses		**(72,690)**	(99,916)
Total deficit		**(72,660)**	(99,886)

The financial statements on pages 6 to 21 were approved by the Board of Directors on 7 June 2018 and were signed on its behalf by:

P J Bridgewater
Director

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Cash flow statement for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Interest received		**102,160**	99,899
Interest paid		**(100,630)**	(99,876)
Net cash generated from operating activities		**1,530**	23
Cash flows from financing activities			
Intercompany loan issued		**(296,985)**	-
Intercompany loan repaid		**20,256**	20,519
Bond issue		**300,000**	-
Bond issue costs		**(3,015)**	-
Long-term loans repaid		**(21,591)**	(20,344)
Net cash used in financing activities		**(1,335)**	175
Increase in net cash and cash equivalents	13	**195**	198
Cash and cash equivalents at 1 April		**2,401**	2,203
Cash and cash equivalents at 31 March	6	**2,596**	2,401

Principal accounting policies

Basis of preparation
Dŵr Cymru (Financing) Limited is incorporated in the Cayman Islands, registered number 108127, but is also a private company registered in Wales, in the UK. The registered number is FC23222 and the registered address is Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY; it is therefore required under United Kingdom law to prepare and file financial statements at Companies House.

The Company has listed debt in issue on the Euro MTF Market operated by the Bourse de Luxembourg; this is not a European regulated market and Luxembourg has no equivalent of the Disclosure and Transparency Rules applying to it.

The Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). 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.

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 2 – Share based payments
- IFRS 4 – Insurance Contracts
- IAS 28 – Investments in Associates and Joint Ventures
- IFRS 15 – Revenue from contracts with Customers
- IFRS 9 – Financial instruments
- IFRS 3 – Business Combinations
- IFRS 11 – Joint Arrangements
- IFRS 17 - Insurance Contracts
- IAS 12 - Income Taxes
- IAS 23 – Borrowing Costs

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 2018
The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all of 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.

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 (continued)

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 Company and the Group as a whole.

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; management makes an adjustment for the Company's own credit risk using this valuation tool to extract an average of traded bond spreads at the balance sheet date.

During the year to 31 March 2018, none of the Company's derivatives qualified for hedge accounting under IAS 39 (2017: none). These instruments are carried at fair value through profit or loss with changes in fair value being recognised immediately in the income statement.

Trade and other payables
Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Fair value estimation
In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Company 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 Company's derivatives are categorised at Level 2 and as at 31 March 2018 were valued as follows:

- Assets: treasury derivatives £93.5m (2017: treasury derivatives £97.2m).
- Liabilities: treasury derivatives £224.2m (2017: treasury derivatives £255.6m).

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.

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.

Taxation
Current taxation is corporation tax in the United Kingdom based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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 (2018: 17%, 2017: 17%).

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 (continued)

Financing risk management objectives and policies
Treasury activities are managed at a group level within a formal set of treasury policies and objectives, which are reviewed at least annually 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 can be placed with our Account Bank for overnight risk only. Deposits of up to one year can be placed with or with the Account Bank as instant access deposits. 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 one month.

The policies contained within the Group's bond documentation 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 2018 amounted to £2,567m (2017: £2,243m). Cash and cash equivalents in the Company of £2.6m (2017: £2.4m) cannot be used for regulated retail, water, wastewater or other commercial operations within the Group and all other transactions within the Company are on a strict cost-pass-through basis; 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 Group borrowings of £3,360m as at 31 March 2018 (2017: £2,978m), none related to floating rate debt (2017: none). The Group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

The 'hedges' established to manage these risks although economic in nature 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 £3,309m (2017: £2,927m) 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 bondholders 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 2018, the Group had committed undrawn borrowing facilities of £420m (2017: £460m) and net cash and cash equivalents of £282m (2017: £95m).

The Company had £170m of undrawn revolving credit facilities as of 31 March 2018 all of which will expire in 2020.

Principal accounting policies (continued)

Liquidity risk (continued)

As at 31 March 2018 there was also a special liquidity facility of £135m (2017: £135m). This is required in order to meet certain interest and other obligations that cannot be funded through operating cash flows. The liquidity facility is for use in the event of a standstill being declared by the Security Trustee following an event of default under the Group's debt financing covenants. The facility is renewable on an annual basis.

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 2018 gearing was 57% (2017: 56%).

Financial instruments: concentration of risk and counterparty risk

The Company has two swaps: a £192m floating-to-fixed interest rate swap maturing in 2031 and a £100m 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 IAS 39.

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 notes 9 and 10.

Notes to the financial statements

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 interest payable

	2018 £000	2017 £000
Interest payable:		
- interest payable on loans	**(91,854)**	(89,725)
- interest payable on swaps	**(10,111)**	(9,976)
- indexation on index-linked bonds	**(45,739)**	(24,759)
- indexation on index-linked swaps	**(4,872)**	(2,477)
	(152,576)	(126,937)
Interest receivable:		
- intercompany (note 15)	**150,037**	124,339
- index-linked swap	**2,729**	2,785
- external	**5**	11
	152,771	127,135
Net interest receivable before fair value adjustments	**195**	198
Fair value gains/(losses) on derivative financial instruments before indexation	**32,608**	(33,122)
Net interest receivable/(payable)	**32,803**	(32,924)

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. Profit before taxation

Services provided by the Company's auditor
Audit fees of £5,000 (2017: £5,000) have been borne by a fellow Group company.

4. Taxation

	2018 £000	2017 £000
Corporation tax		
- group relief received	-	(40)
- adjustment for prior years	-	18
Deferred tax		
- current year movements	(5,577)	4,722
- adjustment for prior years	-	(16)
Taxation (charge)/credit	(5,577)	4,684

	2018 £000	2017 £000
Profit/(loss) before taxation	32,803	(32,924)
Profit/(loss) before taxation multiplied by the corporation tax rate in the UK of 19% (2017: 20%)	6,233	(6,585)
Prior period adjustment	-	(2)
Difference between standard rate of corporation tax (19%) and rate at which deferred tax provided (17%)	(656)	1,903
Total taxation charge/(credit)	5,577	(4,684)

5. Financial assets

	2018 £000	2017 £000
Non-current		
Loans to group undertakings	2,584,630	2,256,242
Current		
Loans to group undertakings	24,348	23,017

6. Cash and cash equivalents

	2018 £000	2017 £000
Short-term deposits	2,596	2,401

The effective interest rate on short-term deposits as at 31 March 2018 was 0.3% (2017: 0.2%) and these deposits had an average maturity of 1 day (2017: 1 day).

7. Other payables

	2018 £000	2017 £000
Accrued interest payable	2,124	788

8. Financial liabilities - borrowings

	2018 £000	2017 £000
Current		
Bonds	**637**	637
European Investment Bank loans	**21,591**	21,591
	22,228	22,228
Non-current		
Bonds	**2,363,201**	2,018,099
European Investment Bank loans	**181,477**	203,068
	2,544,678	2,221,167

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 2). The fair values of derivative financial instruments are arrived at by discounting future cash flows associated with each swap. The swap rate data used for discounting the flows is obtained from a valuation tool using Level 2 techniques for fair value measurement.

2018	**Fair values**	
	Assets £000	**Liabilities £000**
Current		
Index-linked swaps	3,520	(947)
Interest rate swaps	-	(8,996)
Interest rate swaps - intercompany	8,996	-
	12,516	(9,943)
Non-current		
Index-linked swaps	-	(133,276)
Interest rate swaps	-	(80,945)
Interest rate swaps - intercompany	80,945	-
	80,945	(214,221)
Total	93,461	(224,164)

9. Derivative financial instruments (continued)

2017	Fair values	
	Assets £000	Liabilities £000
Current		
Index-linked swaps	3,643	(914)
Interest rate swaps	-	(9.174)
Interest rate swaps - intercompany	9,174	-
	12,817	(10,088)
Non-current		
Index-linked swaps	-	(161,168)
Interest rate swaps	-	(84,386)
Interest rate swaps - intercompany	84,386	-
	84,386	(245,554)
Total	97,203	(255,642)

The notional values of the swaps are: interest rate swaps - £192m (2017: £192m); index-linked swaps - £100m (2017: £100m). A Group company, Dŵr Cymru Cyfyngedig, is liable for any future cash liabilities relating to the £192m interest rate swap under the terms of the intercompany loan arrangements, hence an intercompany derivative asset is recognised equal to the fair value of the derivative liability.

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 £100m of fixed rate bonds by reference to the Retail Prices Index ("RPI").

The principal terms are as follows:

Indexed notional amount:	£140m (2017: £135m)
Swap maturity:	39 years (2017: 40 years)
Interest rate:	1.35% (indexed by RPI) (2017: 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:

	2018	2017
Assets		
Cash and cash equivalents	**0.3%**	0.2%
Amounts owed by group undertakings	**3.9%**	4.0%
Liabilities		
Bonds	**4.1%**	4.3%
European Investment Bank loans	**1.1%**	1.0%

Other receivables and payables are non-interest bearing.

The effective interest rates excludes the effect of the interest rate swaps set out in note10.

b) Liquidity risk

2018	**< 1 year £000**	**1–2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Assets					
Cash and cash equivalents	**2,596**	-	-	-	**2,596**
Financial assets:					
Loan to group undertakings	**24,348**	**29,748**	**400,607**	**2,154,275**	**2,608,978**
	26,944	**29,748**	**400,607**	**2,154,275**	**2,611,574**
Liabilities					
Bonds	**637**	**657**	**326,971**	**2,035,573**	**2,363,838**
European Investment Bank loans	**21,591**	**29,091**	**73,636**	**78,750**	**203,068**
Future interest payable	**106,800**	**106,600**	**318,600**	**966,300**	**1,498,300**
	129,028	**136,348**	**719,207**	**3,080,623**	**4,065,206**

2017	< 1 year £000	1–2 years £000	2-5 years £000	> 5 years £000	Total £000
Assets					
Cash and cash equivalents	2,401	-	-	-	2,401
Financial assets:					
Loan to group undertakings	23,017	22,248	429,698	1,804,296	2,279,259
	25,418	22,248	429,698	1,804,296	2,281,660
Liabilities					
Bonds	637	657	326,971	1,690,471	2,018,736
European Investment Bank loans	21,591	21,591	102,727	78,750	224,659
Future interest payable	98,100	97,900	292,400	847,900	1,336,300
	120,328	120,148	722,098	2,617,121	3,579,695

10. Financial risk management (continued)

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.

	2018 Book value £000	**2018 Fair value £000**	2017 Book value £000	2017 Fair value £000
Fair value of other financial assets				
- cash and cash equivalents	**2,596**	**2,596**	2,401	2,401
- loans to group undertakings (note 5)	**2,608,978**	**3,416,336**	2,279,259	3,194,941
Fair value of other financial liabilities				
- European Investment Bank loans (note 8)	**203,068**	**203,068**	224,659	224,659
- bonds (note 8)	**2,363,838**	**3,171,196**	2,018,736	2,934,417
- other payables (note 7)	**2,123**	**2,123**	788	788

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:

	2018 £000	2017 £000
Expiring in more than one year		
Revolving credit facilities	**170,000**	150,000
	170,000	150,000

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

The Company has £170 million of undrawn revolving credit facilities all of which will expire during 2020.

At 31 March 2018 the Company also had a special liquidity facility of £135m (2017: £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.

10. Financial risk management (continued)

e) Capital risk management

Gearing ratios (Group – Glas Cymru Holdings Cyfyngedig)

	2018 £m	2017 £m
Total borrowings	(3,360)	(2,978)
Less: cash and cash equivalents	288	101
Net debt	(3,072)	(2,877)
RCV	5,468	5,217
Total capital	2,396	2,340
Less: unamortised bond costs and A6 bond indexation	(46)	(39)
Total capital per bond covenants	2,350	2,301
Gearing ratio	57%	56%

While the Company has no capital requirements, as set out on page 11 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 17% (2017: 17%)

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

	2018 £000	2017 £000
At 1 April	21,076	16,370
Income statement (charge)/credit	(5,577)	4,706
At 31 March	15,499	21,076

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.

	2018 £000	2017 £000
Tax losses and other temporary differences	15,499	21,076
Deferred tax asset	15,499	21,076

Deferred tax has been provided at the rate of 17% which apply from 1 April 2020 and is the rate which is expected to apply when the temporary differences reverse.

12. Called up share capital

	2018 £000	2017 £000
Authorised		
50,000 (2017: 50,000) ordinary shares of £1 each	**50**	50
Allotted and fully paid		
30,000 (2017: 30,000) called up ordinary shares of £1 each	**30**	30

13. Analysis and reconciliation of net funds

Net funds is defined as the value of cash and cash equivalents and the intercompany loan less net accrued interest and total borrowings.

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

	2018 £000	2017 £000
Cash and cash equivalents	**2,596**	2,401
Financial assets:		
- group receivables	**2,608,978**	2,279,260
	2,611,574	2,281,661
Net accrued interest	**(2,123)**	(788)
Debt due after one year	**(2,544,678)**	(2,221,167)
Debt due within one year	**(22,228)**	(22,228)
	(2,569,029)	(2,244,183)
Net funds	**42,545**	37,478

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

	2018 £000	2017 £000
Net funds at start of year	**37,478**	34,803
Increase in net cash	**195**	198
Increase in receivables	**329,719**	6,103
Decrease in debt	**(278,388)**	20,342
Increase in net funds arising from cash flows	**51,526**	26,643
Amortisation of bond issue premium	**616**	616
Indexation of index-linked debt	**(45,739)**	(24,759)
Movement in accrued interest	**(1,336)**	175
Movement in net funds during the year	**5,067**	2,675
Net funds at the end of the year	**42,545**	37,478

14. Employees and Directors

The emoluments of the Directors are paid by the parent company which makes no recharge to the Company as there are no qualifying services for Dŵr Cymru (Financing) Limited. Accordingly, the financial statements include no emoluments in respect of Directors.

15. Related party transactions

Intercompany interest receivable from Dŵr Cymru Cyfyngedig (DCC), another member of the Glas Cymru Holdings Cyfyngedig Group, was £150,037,000 during the year (2017: £124,339,000).

As at 31 March 2018 the balance outstanding on the intercompany loan to DCC stood at £2,608,978,000 (2017: £2,279,260,000). All borrowings raised by the Company are immediately on-lent to DCC on an arms-length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%.

16. 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 Holdings Cyfyngedig, both of which are registered in England and Wales. Registered Office: Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY. The largest group within which the results of the Company are consolidated is that headed by Glas Cymru Holdings Cyfyngedig whose consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY. The smallest group within which the results of the Company are consolidated is that headed by Glas Cymru Anghyfyngedig whose consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

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.

7 June 2018

Director:
Name: Peter Bridgewater