

Dŵr Cymru (Financing) Ltd

Interim report and accounts

for the six months ended 30 September 2018

Contents

Interim management report	2
Interim income statement	3
Interim statement of changes in equity	4
Interim balance sheet	5
Interim statement of cash flows	6
Notes to the condensed interim financial statements	7

Interim management report

The Directors have pleasure in presenting their management report, together with the financial statements for the six months to 30 September 2018, on pages 3 to 10.

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.

Results and dividends

The loss before taxation amounted to £12,673,000 (2017: profit of £40,654,000). No dividend was declared or paid during the period (2017: £nil).

Business review

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

No significant events have occurred during the period.

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.

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. Management does not consider that these have changed materially during the first six months of the year, nor that there will be any significant change between now and the end of the year. Page 10 of this report refers to risk management of treasury activities within the company.

Key Performance Indicators

The company is part of a group controlled by Glas Cymru Holdings Cyfyngedig. The directors of Dŵr Cymru (Financing) Limited use group-wide key performance measures as indicators to the development, performance and position of the company. These are discussed in the Annual Report of Glas Cymru Holdings Cyfyngedig which does not form part of this report (available on the group's website at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx).

Interim income statement

		Six months ended 30 September 2018 (unaudited) £000	Six months ended 30 September 2017 (unaudited) £000	Year ended 31 March 2018 (audited) £000
	Note			
Financing costs				
- Finance cost	3a	(69,170)	(63,018)	(152,576)
- Finance income	3a	69,282	63,118	152,771
- Fair value (losses)/gains on derivative financial instruments	3b	(12,785)	40,554	32,608
(Loss)/profit before taxation		(12,673)	40,654	32,803
Taxation credit/(charge)	4	2,155	(6,911)	(5,577)
(Loss)/profit for the period		(10,518)	33,743	27,226

Underlying profit				
(Loss)/profit before taxation per income statement		(12,673)	40,654	32,803
Add back:				
- Effect of fair value losses/(gains) on derivative financial instruments		12,785	(40,554)	(32,608)
Profit before taxation and fair value adjustments		112	100	195

The Company has no other recognised gains or losses in the periods presented and accordingly a Statement of Comprehensive Income has not been presented.

The notes on pages 7 to 10 are an integral part to these financial statements.

Interim statement of changes in equity

	Six months ended 30 September 2018 (unaudited) £000	Six months ended 30 September 2017 (unaudited) £000	Year ended 31 March 2018 (audited) £000
Deficit at start of period	(72,660)	(99,886)	(99,886)
(Loss)/profit for the period	(10,518)	33,743	27,226
Deficit at end of period	<u>(83,178)</u>	<u>(66,143)</u>	<u>(72,660)</u>

The notes on pages 7 to 10 are an integral part to these financial statements.

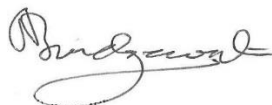
Interim balance sheet

	At 30 September 2018 (unaudited) £000	At 30 September 2017 (unaudited) £000	At 31 March 2018 (audited) £000
Assets			
Non-current assets			
Deferred tax asset	17,654	14,165	15,499
Financial assets:			
- loans to group undertakings	2,582,555	2,255,290	2,584,630
- derivative financial instruments	75,613	67,098	80,945
	<u>2,675,822</u>	<u>2,336,553</u>	<u>2,681,074</u>
Current assets			
Financial assets:			
- loans to group undertakings	54,456	46,336	24,348
- derivative financial instruments	12,636	11,921	12,516
Cash and cash equivalents	2,653	2,462	2,596
	<u>69,745</u>	<u>60,719</u>	<u>39,460</u>
Total Assets	<u>2,745,567</u>	<u>2,397,272</u>	<u>2,720,534</u>
Liabilities			
Current liabilities			
Other payables	(28,424)	(23,282)	(2,124)
Financial liabilities:			
- borrowings	(25,977)	(22,227)	(22,228)
- derivative financial instruments	(10,031)	(9,187)	(9,943)
	<u>(64,432)</u>	<u>(54,696)</u>	<u>(34,295)</u>
Net current liabilities	5,313	6,023	5,165
Non-current liabilities			
Financial liabilities:			
- borrowings	(2,540,982)	(2,219,925)	(2,544,678)
- derivative financial instruments	(223,331)	(188,794)	(214,221)
	<u>(2,764,313)</u>	<u>(2,408,719)</u>	<u>(2,758,899)</u>
Net liabilities	<u>(83,178)</u>	<u>(66,143)</u>	<u>(72,660)</u>
Equity			
Called up share capital	30	30	30
Accumulated losses	(83,208)	(66,173)	(72,690)
Total deficit	<u>(83,178)</u>	<u>(66,143)</u>	<u>(72,660)</u>

The interim financial statements on pages 3 to 6 were approved by the Board of Directors on 13 November 2018 and were signed on its behalf by:



Chris Jones
Director



Peter Bridgewater
Director

The notes on pages 7 to 10 are an integral part to these financial statements.

Interim statement of cash flows

	Six months ended 30 September 2018 (unaudited) £000	Six months ended 30 September 2017 (unaudited) £000	Year ended 31 March 2018 (audited) £000
Cash flows from operating activities			
Interest received	27,614	28,212	102,160
Interest paid	(27,557)	(28,151)	(100,630)
Net cash flow from operating activities	<u>57</u>	<u>61</u>	<u>1,530</u>
Cash flows from financing activities			
Intercompany loan issued	-	-	(296,985)
Intercompany loan repaid	13,295	13,295	20,256
Bond issue	-	-	300,000
Bond issue costs	-	-	(3,015)
Long-term loans repaid	(13,295)	(13,295)	(21,591)
Net cash flow from financing activities	<u>-</u>	<u>-</u>	<u>(1,335)</u>
Increase in net cash and cash equivalents	57	61	195
Cash and cash equivalents at start of period	2,596	2,401	2,401
Cash and cash equivalents at end of period	<u><u>2,653</u></u>	<u><u>2,462</u></u>	<u><u>2,596</u></u>

Notes to the condensed interim financial statements

1. Basis of preparation

Dŵr Cymru (Financing) Limited (the Company) is incorporated in the Cayman Islands but is managed, controlled and resident in the UK for tax purposes. The Company's business is solely to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig.

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's last annual consolidated financial statements for the year ended 31 March 2018. They do not include all of the information required for a complete set of IFRS financial statements, however selected explanatory notes are included to explain items that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

The principal accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those of the previous set of published Annual Report and Accounts for the year ended 31 March 2018.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenditure. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 March 2018, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of exceptional items.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

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 the Group intends to support the Company for at least one year after these financial statements are signed.

The Group is in a net liabilities position as at 30 September 2018. This does not represent any risk to cash flow or funding; £145 million of net liabilities relate to derivative financial instruments and, assuming they are held to maturity, will revert to zero with no cash impact. Excluding derivative financial instruments, the group had net assets of £62 million as at September 2018.

The Directors have a reasonable expectation that the Group has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the condensed consolidated interim financial statements. This conclusion is based upon, amongst other matters, a review of the Group's financial projections together with a review of the cash and committed borrowing facilities available to the Group as well as consideration of the Group's capital adequacy.

2. 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.

Notes to the condensed interim financial statements

3. Financing costs

	Six months ended 30 September 2018 £000 (unaudited)	Six months ended 30 September 2017 £000 (unaudited)	Year ended 31 March 2018 £000 (audited)
a) Financing cost before fair value (losses)/gains			
Interest payable on loans	(69,170)	(63,018)	(152,576)
Interest receivable:			
Intercompany	70,233	62,197	150,037
Net swap (receipts)/payments	(955)	919	2,729
External interest	4	2	5
	<u>69,282</u>	<u>63,118</u>	<u>152,771</u>
Net interest receivable before fair value adjustments	<u>112</u>	<u>100</u>	<u>195</u>
b) Fair value (losses)/gains on derivative financial instruments			
Fair value (losses)/gains on interest rate swaps	<u>(12,785)</u>	<u>40,554</u>	<u>32,608</u>

Whilst the Group employs an economically effective policy using interest rate and index-linked swaps, the hedge accounting criteria of IAS 39 are not satisfied. Consequently, the Company's fixed interest rate and index-linked 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, if held to maturity, these fair value adjustments will reverse and reduce to zero. The notional value of the fixed interest rate swap is £192m (2018: £192m) and the index-linked swap £100m (2018: £100m).

Notes to the condensed interim financial statements

4. Taxation

	30 September 2018 £000 (unaudited)	30 September 2017 £000 (unaudited)	31 March 2018 £000 (audited)
Deferred tax			
Current year movements	(2,155)	6,911	(5,577)
	<u>(2,155)</u>	<u>6,911</u>	<u>(5,577)</u>
(Loss)/profit before tax	(12,673)	40,654	32,803
Profit before tax multiplied by the corporation tax in the UK of 19%	(2,408)	7,724	6,233
Effects of:			
Effect of tax rate change	253	(813)	(656)
Total taxation charge	<u>(2,155)</u>	<u>6,911</u>	<u>5,577</u>

5. Analysis and reconciliation of net funds

a) Net funds at the balance sheet date may be analysed as:	30 September 2018 £000 (unaudited)	30 September 2017 £000 (unaudited)	31 March 2018 £000 (audited)
Cash and cash equivalents	2,653	2,462	2,596
Financial assets: group receivables	<u>2,637,011</u>	<u>2,301,627</u>	<u>2,608,978</u>
	2,639,664	2,304,089	2,611,574
Net accrued interest	(28,424)	(23,281)	(2,123)
Debt due after one year	(2,540,982)	(2,219,925)	(2,544,678)
Debt due within one year	<u>(25,977)</u>	<u>(22,228)</u>	<u>(22,228)</u>
	(2,595,383)	(2,265,434)	(2,569,029)
Net funds	<u>44,281</u>	<u>38,655</u>	<u>42,545</u>

Notes to the condensed interim financial statements

b) The movement in funds debt during the period may be summarised as:	30 September 2018 £000 (unaudited)	30 September 2017 £000 (unaudited)	31 March 2018 £000 (audited)
Net funds at start of period	42,545	37,478	37,478
Increase in net cash	57	61	195
Increase in receivables	28,034	22,367	329,719
Decrease in debt	13,279	13,280	(278,388)
Increase in net funds arising from cash flows	41,370	35,708	51,526
Amortisation of bond issue premium	355	336	616
Indexation of index-linked debt	(13,688)	(12,374)	(45,739)
Movement in accrued interest	(26,301)	(22,493)	(1,336)
Movement in net funds during the period	1,736	1,177	5,067
Net debt at end of period	44,281	38,655	42,545

6. Financial risk management and financial instruments

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2018. There have been no changes in the risk management department or in any risk management policies since the year end.

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

All of the Company's treasury derivatives are categorised at Level 2 and as at 30 September 2018 were valued as follows:

- Assets: treasury derivatives £88.2m (March 2018: treasury derivatives £93.5m); and
- Liabilities: treasury derivatives £233.4m (March 2018: treasury derivatives £224.2m).

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.

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

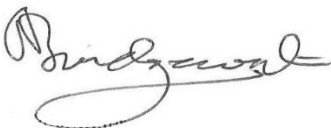
Management responsibility statement of the Board of Directors

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.



Director
Name: Chris Jones



Director
Name: Peter Bridgewater