UK Registered № 11949988

Dŵr Cymru (Financing) UK plc

Annual report and financial statements for the year ended 31 March 2021

UK registered office
Linea
Fortran Road
St Mellons
Cardiff
CF3 0LT

Contents

Page

Strategic report

The Directors present the Strategic Report of Dŵr Cymru (Financing) UK plc for the year ended 31 March 2021.

Principal activity

The principal activity of Dŵr Cymru (Financing) UK plc (the Company) is that of an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig (DCC). The Company exists for that purpose alone and generates profit by charging a one basis point margin on all financing on-lent to DCC. The Company has no employees and has no business relationships with any other group entities.

DCC is the only trading subsidiary in the Whole Business Securitisation of the Glas Cymru Holdings Cyfyngedig Group (the Group) and its principal activities are the supply of water and the treatment and disposal of wastewater under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

The Directors intend for the Company, indirectly, to have a positive impact on the community and the environment, existing as it does to provide financial support to DCC to meet its strategic goals.

Business review

<u>Incorporation and background</u>
The Company was incorporated on 16 April 2019 and is a wholly-owned subsidiary of Dŵr Cymru (Holdings) Limited, a company incorporated, registered and domiciled in Wales in the United Kingdom (registered number 03954867). Details of the Company's share capital and voting rights are disclosed in note 13 to the financial statements.

The Company replaced a fellow Group company, Dŵr Cymru (Financing) Limited (DCFL), which was incorporated in the Cayman Islands (registered number 108127) but also registered in Wales in the UK (registered number FC23222). The company was UK resident for tax purposes, however there could be a perception in the media that a water company's link to the Cayman Islands relates to its tax affairs.

On 1 August 2019 assets and liabilities of DCFL were transferred into Dŵr Cymru (Financing) UK plc. The transaction was effected between wholly-owned subsidiaries of the ultimate holding company, Glas Cymru Holdings Cyfyngedig, with the sole purpose being to bring about the removal of the Cayman Islands link. The Company took on DCFL's assets and liabilities and place in the Group's ring-fenced Whole Business Securitisation, and DCFL began the process of being wound up on 9 September 2019; it was liquidated on 22 December 2020.

<u>Performance to 31 March 2021</u>
The Company commenced trading on 1 August 2019 and the comparative period in these financial statements therefore reflects eight months of activity to 31 March 2020. For the year to 31 March 2021 the Company reported a loss before taxation of £45,299,000 (2020: £20,071,000 gain), principally reflecting changes in the fair value of derivative financial instruments (2021: £41,864,000 loss, 2020: £27,159,000 gain).

On 31 March 2021 the Company repaid £325 million of Class B1 bonds with a fixed coupon of 6.907% which reached maturity as at that date.

As at 31 March 2021 net assets stood at £41,693,000 (2020, £82,011,000); these represent issued share capital and share premium of £3,083,000 (2020: £3,083,000), a capital contribution reserve of £57,433,000 (2020: £57,433,000) and a retained deficit of £18,823,000 (2020: retained profit of £21,495,000) which is driven by the changes in fair value of derivatives.

The Company has a special £135m liquidity facility 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 on a rolling five-year evergreen basis (next renewal due 3 April 2024).

The current ratings of the Company's bonds are summarised in the following table:

Bond class	Moody's	S&P	Fitch
A	A2	AA	A
B	A3	A-	A
C	Baa2	BBB	BBB+

Performance to 31 March 2021 (continued)

The credit ratings of the Company's class A bonds, which are guaranteed by Assured Guaranty Europe plc ("AG") (A2/AA/NR), carry the higher of either Glas or AG's rating; Moody's and S&P therefore revert to the higher AG rating but Fitch reflects the underlying rating of the Glas bonds.

All of the Company's revolving credit facilities have been renewed during the year to March 2021, each for two years with a one-year extension option. Three of the four facilities have been increased by £10 million, increasing the total available from £170 million to £200 million. As at the date of this report all facilities remain undrawn.

Post year-end developments

Following Board approval on 4 March 2021 and investor roadshows held in late March, we successfully issued £300 million of subordinated (junior) bonds at a fixed rate of 2.375% shortly after the year end, which received a positive response from investors. In line with the Group's AMP7 financing plans, on 6 April 2021 we also entered into contracts to swap the new bond debt to RPI with effect from the drawdown. This new issue effectively and efficiently ensures that the Group is fully funded to the end of the current regulatory period in 2025 and strengthens an already robust liquidity position to enable us to react to ongoing uncertainty in the short-to-medium term.

The Company has secured adequate financing for DCC to allow it to continue in operation for the foreseeable future including through the current period of economic uncertainty during the COVID-19 pandemic.

The Directors do not anticipate making any changes to the Company's purpose or activities.

Principal risks and uncertainties

The principal risks faced by the Company are an inability to meet its debt servicing costs as they fall due and non-compliance with covenants. These are inextricably linked to DCC's ability to make interest and principal payments of the on-lent financing; the Company's principal risks and uncertainties are therefore integrated with the principal risks and uncertainties of the Group; these are disclosed within the Group's annual report which does not form part of this report (a copy can be obtained from the Company Secretary at the registered address of Linea, Fortran Road, St Mellons, Cardiff CF3 0LT).

The Company also monitors its derivatives portfolio closely to ensure that hedges operate as intended. The most recent review, conducted as at 31 March 2021, identified that a £192,000,000 floating-to-fixed rate swap were not an exact match for any of the Company's floating rate instruments but that it provides an effective economic hedge against the Company's floating rate loans from the European Investment Bank.

In addition, the Company's net asset position is sensitive to movements in the fair value of derivative financial instruments. For example, a further negative swing of over £41,693,000 in the fair value of derivatives at 31 March 2021 would have been needed to put the Company in a net liabilities position. The Directors do not foresee any practical issues in the event that this were to happen, since their intention is for the Company to hold all such instruments to maturity when their fair values will reach zero.

Financing risk management objectives and policies are set out in note 1 to the financial statements, with related disclosures made in note 12.

Brexit

For the UK as a whole Brexit was a high-profile issue throughout the year to 31 March 2021 and the Group committed much time and effort to assessing its potential impact. While the United Kingdom (UK) withdrew from the European Union on 31 January 2020, a period of transition meant that the UK continued to participate in the European Customs Union and the European Single Market until 31 December 2020; from 1 January 2021 these have been replaced by the EU-UK Trade and Cooperation Agreement. The Directors, having regard to the Company and the wider group's sources of finance and future plans, do not consider that Brexit is likely to have a material impact on the activities of the Company.

COVID-19

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak to be a pandemic and the virus continued to spread throughout the UK during the year to 31 March 2021.

The Company is not directly affected by the pandemic, having no need to source financing in the short-to-medium term and having only one customer, DCC. The potential for indirect impact is DCC's ability to service the debt on-lent by the Company. The Directors of the Group have taken into account the estimated impact of the pandemic on the valuation of the Group's consolidated and DCC's entity balance sheet as at 31 March 2021, concluding that the pandemic poses no significant threat to the viability of the Group or DCC and that they will be able to continue their activities for the foreseeable future. See also "going concern" in the notes to the financial statements on page 14.

Key performance indicators, trends and non-financial information

The company is required under its Common Terms Agreement with bondholders to publish an Investor Report, previously quarterly but which, following formal creditor approval on 17 March 2021, will now be on a six-monthly basis, covering periods to 31 March and 30 September. The investor report confirms compliance with key financial covenants, namely pre and post capital maintenance interest cover and gearing ratios. The latest Investor Report, prepared for the six months to 31 March 2021, forecast significant headroom within these covenanted ratios and continued compliance through to the end of the forecast period in March 2025.

The Directors of the Group manage its operations on an overall basis. For this reason, the Company's Directors believe that analysis using other key performance indicators is neither necessary nor appropriate for an understanding of the development, performance or position of the activities of Dŵr Cymru (Financing) UK plc. The development, performance and position of the Group, which includes the Company, are discussed within the Group's annual report.

S172(1) statement

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders in their decision-making. The Directors, who are also directors of DCC (which utilises the financing raised by the Company) as well as the Group's ultimate parent company Glas Cymru Holdings Cyfyngedig (GCHC or Glas Cymru), have regard to the interests of the Group's employees and other stakeholders, including the impact of its activities on the community, the environment and the Group's reputation, when making decisions.

The Directors are mindful of the purpose of the Company and its intrinsic link to DCC's long-term vision and is focused on promoting the long-term success of the Company, in particular given its role in providing finance to DCC as the custodian of assets over the long term to enable the delivery of essential services to customers.

As part of its involvement in the PR19 price review process, the joint Board of directors of GCHC and DCC (the Board) had particular regard to cost and availability of funding for the Group's investment programme over the five-year period 2020 to 2025 and the longer term. This price review process allowed the Board to reflect on how it engages with its stakeholders, which in respect of the Company include investors and rating agencies.

The Board is directly involved in engaging with the views of investors. Formal communications with bondholders are subject to Board approval, and members of the Board attend the Group's annual investor meeting held in July every year, where investors have the opportunity to ask questions of members of the Board.

While the Company's activities mean that it has a limited range of stakeholders, on pages 39 to 43 of the Strategic Report in the Glas Cymru 2020-21 Annual Report and Accounts, a copy of which is available to view at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx), details are set out of the Group's principal stakeholders, how and why we engage and the outcomes of those engagement processes. The relevance of each stakeholder group may increase or decrease depending on the matter or issue in question, so the Board seeks to consider the needs and priorities of each stakeholder group during its discussions and as part of its decision-making.

By order of the Board.

NWilliams.

N Williams
Company Secretary

28 July 2021

Directors' report

The Directors have pleasure in presenting their annual report to the shareholder, together with the audited financial statements for the year ended 31 March 2021 on pages 10 to 30.

Directors
The Directors who served during the period since incorporation and up to the date of signing the financial statements are as shown below. Certain directors benefited from qualifying third party indemnity provisions in place during the financial period.

C Jones	(resigned 15 May 2020)
P Perry	
P M Davis	
R Morgan	(appointed 1 November 2020 as alternate director to P M Davis)

Going concern
The Directors have prepared cash flow forecasts which indicate that the Company will have sufficient funds to meet its liabilities as they fall due – this takes into account the ability of Dŵr Cymru Cyfyngedig (DCC) to service the debt on-lent by the Company. Further details of the forecasts, including upside and downside scenarios and the potential financial impact of COVID-19, can be found under "going concern" in the notes to the financial statements on page 14. It is therefore appropriate to prepare the accounts on the going concern basis.

Dividends
No dividend was declared or paid during the year to 31 March 2021 (period to 31 March 2020: none).

Political donations
The Company made no political donations and incurred no political expenditure during the year to 31 March 2021 (period to 31 March 2020: none).

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

Engagement with stakeholders
Details of how the Directors have engaged with the Company's stakeholders and with regards to its only business relationship, which is with DCC, during the year ended 31 March 2021 are set out within the Strategic Report on pages 1 to 3.

Disclosure of information to auditor
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditor
KPMG LLP will be proposed as auditor of the Company for the financial year ending 31 March 2022 and a resolution relating to this appointment will be put to the Company's shareholder.

By order of the Board.

N Williams
Company Secretary
Registered office:
Linea,
Fortran Road,
St Mellons,
Cardiff,
CF3 0LT

28 July 2021

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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 its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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 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 its financial statements comply with the Companies Act 2006. They 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 to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to Dŵr Cymru (Financing) UK plc

Opinion

We have audited the financial statements of Dwr Cymru (Financing) UK plc ("the Company") for the period ended 31 March 2021 which comprise the Income statement, Balance sheet, Statement of changes in equity, Cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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.

Recoverability of loans to group undertakings
(£3.8bn; 2020: £4.2bn)
Refer to page 16 (accounting policy) and page 22 (financial disclosure)

The risk
Low risk, high value

The carrying amount of the loans to group undertakings balance represents 96.9% (2020: 96.4%) of the Company's total assets. We do not consider the recoverable amount of these receivables to be at a high risk of significant misstatements or to be subject to a significant level of judgement. However, due to their materiality in the context of the company financial statements as a whole, this is considered to be the area which will have the greatest effect on our overall audit strategy and allocation of resources in planning and completing our company audit.

Our response

We performed the tests below rather than seeking to rely on any of the company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

- **Test of detail:** Comparing the carrying amount of the intra-group receivable with the respective net asset values of the counterparty (the intra-group related party), to identify whether the remaining net asset values of the counterparty are sufficient to repay the intra-group receivable.
- **Forecast review**: Reviewing the counterparty (the intra-group related party) forecasts, to identify whether it is appropriate to consider it likely that sufficient cash will be generated to allow the repayment of the debt, when it falls due.
- **Assessing transparency:** Critically assessing the adequacy of the Company's disclosures in respect of the intra-group receivables.

Our results

The results of our testing were satisfactory and we considered the recoverable amount of the intra-group receivables to be acceptable. (2020: acceptable)

We continue to perform procedures over Going Concern. However, having assessed the potential impacts of Covid-19 on the business, we have assessed this as no longer being one of our key audit matters in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the financial statements as a whole was set at £31.0m (2020: £21.5m), determined with reference to a benchmark of total assets, of which it represents 0.8% (2020: 0.5%).

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £23.2m (2020: £16.1m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £1.6m (2020: £1.1m), 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.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and/or metrics relevant to debt covenants over this period were the recoverability of loans to group undertakings.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Company's current and projected cash and facilities (a reverse stress test). We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:
- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the company’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting. On this audit we do not believe there is a fraud risk related to revenue recognition because of the regulated nature of the revenues recognized and limited opportunity or incentive for management to manipulate these revenues.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These cash entries made to unrelated accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards).

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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, except as explicitly stated below, 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.

Independent auditor’s report to Dŵr Cymru (Financing) UK plc (continued)

Strategic report and directors’ report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors’ report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Respective responsibilities

Directors’ responsibilities
As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements including being satisfied that they 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.

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

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s 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 and the Company’s members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

28 July 2021

Income statement for the year ended 31 March 2021

Continuing activities	Note	**Year ended 31 March 2021 £000**	Period ended 31 March 2020 £000
Financial income	3	**35,519**	16,273
Financial expenses	3	**(38,954)**	(23,361)
Fair value (losses)/gains on derivative financial instruments	3	**(41,864)**	27,159
Operating (loss)/profit		**(45,299)**	20,071
(Loss)/profit before taxation		**(45,299)**	20,071
Taxation	5	**4,981**	1,424
(Loss)/profit for the year/period		**(40,318)**	21,495

The Company has no other recognised gains or losses in the period and accordingly a statement of comprehensive income has not been presented.

The notes on pages 14 to 30 form part of these financial statements.

Balance sheet as at 31 March 2021

	Note	31 March 2021 £000	31 March 2020 £000
Assets			
Non-current assets			
Deferred tax	6	**6,471**	1,441
Other financial assets:			
- loans to group undertakings	7	**3,734,940**	3,795,238
- derivative financial instruments	11	**74,052**	92,198
		3,815,463	3,888,877
Current assets			
Cash and cash equivalents	8	**266**	216
Other financial assets:			
- loans to group undertakings	7	**56,677**	402,164
- derivative financial instruments	11	**38,759**	46,103
- other receivables		**-**	1,916
		95,702	450,399
Total assets		**3,911,165**	4,339,276
Liabilities			
Current liabilities			
Trade and other payables	9	**(651)**	(2,899)
Other financial liabilities:			
- borrowings	10	**(55,606)**	(401,194)
- derivative financial instruments	11	**(17,289)**	(14,878)
		(73,546)	(418,971)
Net current assets		**22,156**	31,428
Non-current liabilities			
Other financial liabilities:			
- borrowings	10	**(3,481,513)**	(3,550,487)
- derivative financial instruments	11	**(314,413)**	(287,807)
		(3,795,926)	(3,838,294)
Total liabilities		**(3,869,472)**	(4,257,265)
Net assets		**41,693**	82,011
Equity			
Share capital	13	**50**	50
Share premium	13	**3,033**	3,033
Capital contribution reserve	13	**57,433**	57,433
Retained earnings		**(18,823)**	21,495
Total equity		**41,693**	82,011

The financial statements on pages 10 to 30 were approved by the Board of Directors on 28 July 2021 and were signed on its behalf by:

P M Davis

P M Davis
Director

UK Registered No 11949988

Statement of changes in equity for the year ended 31 March 2021

	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
On incorporation	-	-	-	-	-
Issue of share capital	50	-	-	-	50
Share premium	-	3,033	-	-	3,033
Capital contribution	-	-	57,433	-	57,433
Profit for the period	-	-	-	21,495	21,495
At 31 March 2021	**50**	**3,033**	**57,433**	**21,495**	**82,011**
Loss for the year	**-**	**-**	**-**	**(40,318)**	**(40,318)**
At 31 March 2021	**50**	**3,033**	**57,433**	**(18,823)**	**41,693**

Cash flow statement for the year ended 31 March 2021

	Note	Year ended 31 March 2021 £000	Period ended 31 March 2020 £000
Cash flow from operating activities			
Interest received		**200,427**	114,601
Interest paid		**(200,377)**	(114,397)
Net cash flow from operating activities		**50**	204
Cash flow from financing activities			
Issue of shares		**-**	12
Loan issued to group undertakings		**-**	(494,369)
Loan repaid by group undertaking		**354,091**	15,568
Bond repayment		**(325,000)**	-
Bond issue		**-**	500,000
Bond issue costs		**-**	(5,631)
Term loans repaid		**(29,091)**	(15,568)
Net cash flow from financing activities		**-**	12
Increase in cash and cash equivalents	14b	**50**	216
Cash and cash equivalents at beginning of year		**216**	-
Cash and cash equivalents at 31 March	8	**266**	216

Notes to the financial statements (continued)

1. Principal accounting policies

Basis of preparation
Dŵr Cymru (Financing) UK plc (the Company) is a public limited company incorporated, domiciled and registered in Wales in the UK. The registered number is 11949988 and the registered address is Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT. The Company is part of a group headed by Glas Cymru Holdings Cyfyngedig (the Group) and it exists solely to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig, a regulated water and sewerage undertaker and fellow group company.

The Company has listed debt in issue on the Euro MTF Market operated by the Bourse de Luxembourg; a management responsibility statement signed on behalf of the Directors has been appended to these financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

The financial statements of Dŵr Cymru (Financing) UK plc statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 presentational currency of these accounts is GBP and all balances are shown rounded in £000.

The preparation of financial statements to conform with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas including a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 19.

Accounting policies for the year ended 31 March 2021
The principal accounting policies adopted in the preparation of these financial statements are set out below.

Going concern
The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Company has adequate resources for a period of at least 12 months from the date of their approval and that there are no material uncertainties to disclose.

The Directors have prepared cash flow forecasts for a period of nine years from the date of approval of these financial statements which indicate that, taking accounts of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period; these funds will be realised through the servicing of on-lent debt to a fellow subsidiary company, Dŵr Cymru Cyfyngedig (DCC), by that company.

The Company is not directly affected by the coronavirus pandemic, having no need to source financing in the short-to-medium term and having only one customer, DCC, the Group's main trading entity. The potential for indirect impact is DCC's ability to service the debt on-lent by the Company. The Directors of the Group have taken into account the estimated impact of the pandemic on the valuation of the Group's consolidated and DCC's entity balance sheet as at 31 March 2021 and its forecasts through to March 2025, concluding that the pandemic poses no significant threat to the viability of the Group or DCC and that they will be able to continue their activities for the foreseeable future.

The Group currently has strong liquidity, with cash and cash equivalents of £221m as at 31 March 2021 as well as £200m of undrawn revolving credit facilities. This was increased by a further £300m following the drawdown of the recent junior debt issue.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Company's ability to continue as a going concern.

Group forecasts (including the Company and DCC)
The Group has prepared a baseline plan which reflects a view of the estimated impact of the COVID-19 pandemic on the Group through to March 2023.

Going concern (continued)

This baseline plan assumes that the lifting of restrictions continues to follow the Government's 22 February Roadmap, which would ease restrictions in June, with elements of social distancing continuing into the foreseeable future. Unemployment is assumed to peak around 6.5% at the end of 2021, recovering slowly to pre-pandemic levels by 2025; CPIH falls to an average of 1.5% during 2021 and recovers to the government's long-term target of 2% in 2022/23. The worst-case scenario impact on turnover is considered to be behind us, with 2020/21 seeing a circa £21m reduction in non-household revenues (12%, demand-driven), with a further circa £5m of revenue voluntarily abated, offset by an increase in household revenues of circa £9m. However under regulatory mechanisms lost revenues are recoverable in future years.

This baseline plan has then been subject to a furthermore extreme downside stress scenario, which assumes an additional drop in CPIH to -2%, recovering to 3% by March 2023 and unemployment at around 6.5%. Consequential impacts on the Group's cost base are greater pressure on bad debts (circa £4m per annum through to 2022/23), as well as further reductions in revenues.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within rating agencies' guidance for our current ratings.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Group's ability to continue as a going concern.

Changes in accounting policies and disclosures

The following standards, amendments and interpretations have been adopted by the Company for the first time for the financial year beginning on 1 April 2020:

- **IFRS 9** 'Financial Instruments'**, IAS 39** 'Financial Instruments: Recognition and Measurement' **and IFRS 7** 'Financial Instruments: Disclosures' amendments relating to Interest Rate Benchmark Reform ('IBOR') reform Phase 1 exceptions.
- **IFRS 3** 'Business Combinations' amendments to the definitions of a business
- **IFRS 16** amendments relating to COVID-19 related rent concessions
- **IAS 1** 'Presentation of Financial Statements **and IAS 8** 'Accounting Policies, Changing in Accounting Estimates and Errors' amendments to the definition of materiality
- **Conceptual framework** revision

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Company.

IFRS, IAS 39 and IFRS 7 amendments relating to IBOR:

The Phase 1 exceptions modify specific hedge accounting requirements which allow for the assumption that the interest rate benchmark on which the hedged cash flows and cash flows from hedged instruments are based will not be altered as a result of the interest rate benchmark reform. This exception is not intended to provide relief from any other consequences arising from the interest rate benchmark reform, such as the discontinuation of hedge accounting due to a termination of the hedge relationship. It also identifies the specific disclosures about the extent to which the Company's hedging relationships are affected.

The Phase 1 exceptions did not impact the Company at the balance sheet date as the Company's hedged instruments do not qualify for hedge accounting. For transparency and understanding of the potential impact the IBOR reforms have on the Company's Treasury dealings, we have included an impact assessment below:

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates (IBORs) has become a priority for global regulators. The Financial Conduct Authority (FCA) has set UK financial institutions a deadline of 30 September 2021 to agree and implement LIBOR reform language changes, which will impact several of the Company's bilateral Treasury contracts. The Company's risk exposure that is directly affected by the interest rate benchmark reform is £100m floating-rate debt (see note 11). This is made up of £1,014m of floating rate nominal debt consisting of a mixture of loans, leases, and Revolving Credit Facility ('RCF'), offset by £741m notional swaps value. The Company has hedged this debt with interest rate swaps and index-linked swaps, although the Company does not hedge account for any of its derivatives. At 31 March 2021, the Company had fixed the interest rate through interest rate swaps on £192m of floating rate liabilities.

IFRS, IAS 39 and IFRS 7 amendments relating to IBOR: (continued)

It is currently expected that Sterling Overnight Index Average (SONIA) will replace GBP LIBOR. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period, and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

The Board has established a project plan to oversee the Company's GBP LIBOR transition. This transition project will include changes to policies, processes, risk and valuation models, as well as managing related tax and accounting implications. The Group currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps.

Future changes to accounting standards

At the date of approval of these financial statements, the following Standard and Amendments, which have not been applied in these financial statements, were in issue but not yet effective:

Standards

- **IFRS 17** – Insurance Contracts

Amendments

- **IAS 1** amendments – Classification of liabilities
- **IAS 16** amendments – Proceeds before intended use
- **IFRS 9** 'Financial Instruments'**, IAS 39** 'Financial Instruments: Recognition and Measurement' **and IFRS 7** 'Financial Instruments: Disclosures' amendments relating to Interest Rate Benchmark Reform ('IBOR') reform Phase 2 exceptions.
- **IFRS 3** amendments – Reference to the conceptual framework
- **IAS 37** amendments – Cost of fulfilling a contract
- **IFRS 10 and IAS 28** amendments – Sale or contribution of assets between an investor and its associate or joint venture
- **IAS 8** amendments - Distinction between accounting policies and accounting estimates
- **IFRS 9** amendments – derecognition of financial liabilities
- **Annual Improvements 2018-20**

The Directors anticipate that the adoption of this Standard and Amendments in future periods will have no material impact on the financial statements of the Company or parent company.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments readily convertible into known amounts of cash which are subject to an insignificant risk of change in value. Such investments normally mature less than three months from the date of acquisition, and typically include cash in hand and deposits with banks or other financial institutions.

Other financial assets

<u>Loans to group undertakings</u>

Loans to group undertakings 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. These have been recognised initially at fair value, having regard to the market value of such instruments, and subsequently at amortised cost.

<u>Other receivables</u>

Other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

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 Glas Cymru Holdings Cyfyngedig group (the Group) as a whole.

Derivative financial instruments (continued)
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 2021, none of the Company's derivatives qualified for hedge accounting under IFRS 9. 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.

Other financial liabilities: borrowings
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.

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 period 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 of 19% (2020: 19%).

Interest rate swaps where deferred tax is recognised 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.

<u>Financing risk management objectives and policies</u>
Treasury activities are managed at 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 Company 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 the Company's Account Bank for overnight risk only. 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 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 35 days.

Credit risk (continued)
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 (DCC), on an arm's length basis. The book value of total Company borrowings at 31 March 2021 amounted to £3,537m (2020: £3,952m). Cash and cash equivalents in the Company of £0.2m 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.

Concentration of the Company's credit risk centres on DCC's ability to service the on-lent debt; the Company periodically reviews DCC's cash flow forecasts and credit ratings and has regard to current and forward-looking macro-economic factors that may impact thereon. DCC has consistently had the highest credit ratings in the water sector for a number of years and, as at 31 March 2021, the ratings attaching to the on-lent financial instruments were as follows:

	Carrying value		Credit rating	
	£000	Moody's	S&P	Fitch
Class A bonds	1,495,854	A2	AA	A
Class B bonds	1,719,029	A3	A-	A
Class C bonds	198,818	Baa2	BBB	BBB+
Term loans	123,295	-	-	-
	3,536,996			

Interest rate risk
The Company is part of a whole business securitisation (WBS) comprising parent holding companies Glas Cymru Anghyfyngedig, Glas Cymru (Securities) Cyfyngedig, Dŵr Cymru (Holdings) Limited and Dŵr Cymru Cyfyngedig. Under the Common Terms Agreement with bondholders, the WBS group is covenanted to hedge at least 85% of its total outstanding financial liabilities into either index-linked or fixed rate obligations. As at 31 March 2021, the Group had hedges covering 99% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2020: 100%). For this purpose, floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. Cash flow risk is minimised as a consequence of the regulatory framework, under which revenues and the regulatory asset value are also index-linked. Subject to market constraints and Board approval, the group therefore may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated at group level taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £3,537m as at 31 March 2021, (2020: £3,952m), none related to floating rate debt. The Group and Company therefore consider 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 IFRS 9 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 WBS group borrowings of £3,537m (2020: £3,952m) can fall due in any 24 month period.

Liquidity risk
The Company maintains committed banking facilities in order to provide flexibility in the management of the group's liquidity. Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the WBS group is required to have cash available to fund operations for a duration of 12 months. As at 31 March 2021, the group had committed undrawn borrowing facilities of £200m and net cash and cash equivalents (excluding debt service payments account) of £187m. This was increased by £300 million on 9 April 2021 following the drawdown of the recent junior debt issue. These undrawn facilities are available for two years with a one year extension option. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2021 there was also a special liquidity facility of £135m (2020: £135m); this is required in order to meet certain interest and other obligations that may not 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. The facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis.

Capital risk management
The Company's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the Company operates (as a provider of financing to Dŵr Cymru Cyfyngedig), the Company monitors capital on the basis of the group's gearing ratio. This is calculated as net debt (as defined in 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 2021 gearing was 60% (2020: 60%).

Financial instruments: concentration of risk and counterparty risk
The company uses a floating-to-fixed interest rate swap and fixed-to-RPI swaps which achieve the desired economic effect but which are not exact hedges under IFRS 9. These are fair-valued at the balance sheet date, with changes in fair value recognised through profit or loss. The fair values incorporate adjustments for both counterparty and the Company's own credit risk (see estimates and judgements section below). These swaps 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 of the UK.

In respect of the risks detailed above, further quantitative disclosures are provided in note 12.

<u>Accounting estimates and judgements</u>

<u>Accounting judgement: transfer of assets and liabilities from fellow group company in prior period</u>
In the comparative period, the Company received the assets and liabilities of a fellow group company in order to take over its role in the group, the significant accounting judgement made in the prior year was therefore the conclusion that the transfer did not constitute a transfer of trade and assets and was therefore not a business combination under IFRS 3.

Dŵr Cymru (Financing) UK plc was incorporated on 16 April 2019 and on 1 August 2019 the assets and liabilities of Dŵr Cymru (Financing) Limited (DCFL) were transferred into the Company. DCFL's activities were not standalone in nature and did not constitute a business or a transfer of trade and assets, therefore the transfer fell outside the scope of IFRS 3 (Business Combinations) and a "common control" exemption was not available. Assets and liabilities were therefore fair valued at 1 August in accordance with IFRS 9 (Financial Instruments). The consideration for the novation of the assets and liabilities was made via the transfer to Dŵr Cymru (Financing) Limited of a promissory note with a value of £3,033,000 giving rise to a net gain of £57,433,000. This has been recognised as a capital contribution in the prior period.

Dŵr Cymru (Financing) Limited was incorporated in 2001 on the formation of Glas Cymru in order to provide long-term funding for the activities of Dŵr Cymru Cyfyngedig. It was registered in the Cayman Islands as well as in the UK, although the company has always been UK-resident for tax purposes. The sole purpose of the transaction was to remove the link to the Cayman Islands, following reports in the media criticising other companies' perceived tax-related connections. The company was liquidated on 22 December 2020.

<u>Accounting estimate: derivative financial instruments</u>

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 2021 were valued as follows:
- Assets: treasury derivatives £112.8m (2020: £138.3m)
- Liabilities: treasury derivatives £331.7m (2020: £302.7m)

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.

Accounting estimates and judgements (continued)
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.

An adjustment factor is applied to the counterparty swap valuations to take into account the Company's own credit risk. This adjustment is calculated using the Bloomberg financial dataset valuation model and is derived from an average of the Company's fixed rate bond price at the balance sheet date. A 10% change in the adjustment for own credit risk would increase or reduce the period-end liability by £5.9m, (2020: £5.9m).

2. Segmental information

The Company's activity 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.

3. Net financial income

	2021 £000	2020 £000
Financial income:		
- intercompany	**35,519**	10,811
- interest receivable	**-**	5,462
	35,519	16,273
Financial expenses:		
- interest payable	**(38,954)**	(23,361)
Fair value (losses)/gains on derivative financial instruments before indexation	**(41,864)**	27,159
Net financial income	**(45,299)**	20,071

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 IFRS 9. 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 11 in respect of derivative financial instruments held on the balance sheet.)

The Company has on-lent to Dŵr Cymru Cyfyngedig (DCC) certain fixed rate bond liabilities and fixed-to-index-linked derivatives as single combined index-linked instruments. The indexation element of the fair value movement in the derivative values has been included in "interest payable" in the above analysis in order to match the intercompany financial income with the external interest payable.

4. Operating profit

Services provided by the Company's auditor
Audit fees of £29,900 (2020: £55,000) have been borne by a fellow Group company.

Notes to the financial statements (continued)

5. Taxation

	2021 £000	2020 £000
Corporation tax		
- group relief received	**(49)**	(17)
Deferred tax		
- current period credit	**5,030**	1,441
Taxation	**4,981**	1,424

Total tax reconciliation	2021 £000	2020 £000
(Loss)/profit before taxation	**(45,299)**	20,071
(Loss)/profit before taxation multiplied by the corporation tax rate in the UK of 19%	**8,607**	(3,813)
Effect of:		
Release of fair value adjustments – non-deductible for tax	**(701)**	(1,364)
Fair value movements on derivatives - not taxable/(deductible)	**(2,925)**	6,601
Taxation credit	**4,981**	1,424

Current tax reconciliation	2021 £000	2020 £000
(Loss)/profit before taxation	**(45,299)**	20,071
(Loss)/profit before taxation multiplied by the corporation tax rate in the UK of 19%	**8,607**	(3,813)
Effect of:		
Release of fair value adjustments – non-deductible for tax	**(701)**	(1,364)
Fair value movements on derivatives on which deferred tax is not provided	**(7,953)**	6,601
Taxation credit	**49**	1,424

When the loans and bonds were novated to the company from Dwr Cymru (Financing) Limited, adjustments were made to record them at their fair value in accordance with IFRS 9. The subsequent release of these fair value adjustments is not subject to corporation tax.

Treasury derivative financial instruments are carried at their fair value. Fair value gains and losses arising between balance sheet dates are recognised in the income statement but are not subject to corporation tax.

6. Deferred tax asset

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19%.

The movement in deferred tax is as shown below:

	2021 £000	2020 £000
At beginning of period	**1,441**	-
Credit to income statement	**5,030**	1,441
At 31 March	**6,471**	1,441
Deferred tax comprises:		
Derivative financial instruments	**6,471**	1,441

6. Deferred tax asset (continued)

Deferred tax assets and liabilities have not been recognised in relation to temporary differences present when the assets and liabilities of Dŵr Cymru (Financing) Limited were transferred to the Company. This is in accordance with the initial recognition exemption within IAS 12 (Income taxes) as this transaction was not a business combination and at the time of the transaction it affected neither accounting profit nor taxable profit. As no deferred tax was recognised initially, then no deferred tax will be recognised subsequently for these temporary differences as the carrying amounts of the assets and liabilities change.

The deferred tax asset recognised in these financial statements comprises deductible temporary differences arising from fair value movements on the interest rate swaps that the Company entered into in February 2020. The deferred tax asset will be recovered in future periods when the fair value liabilities on the balance sheet are released to the income statement following changes in market interest rates, or are cash settled. Where liabilities are cash settled by making interest payments under the swaps, the associated cost is recovered from Dwr Cymru Cyfyngedig under the intercompany loan agreement between the two companies; hence there will be future taxable profits to enable the deferred tax asset to be recovered.

As at 31 March 2021, deferred tax was provided at the rate of 19% (2020: 19%).

In the 3 March 2021 Budget, it was announced that the UK tax rate will increase from 19% to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge. Management estimates that if this rate change had been substantively enacted at the current balance sheet date the deferred tax asset, which is currently calculated at 19%, would have increased by £2.0m and a corresponding tax credit would have been recognised in the income statement.

7. Other financial assets – loans to group undertakings

	2021	2020
	£000	£000
Non-current		
Loans to group undertakings	**3,734,940**	3,795,238
Current		
Loans to group undertakings	**56,677**	402,164

Loans to group undertakings represent amounts on-lent to Dŵr Cymru Cyfyngedig, a fellow group company. All financing drawn by the Company is immediately on-lent to DCC at a margin of one basis point; details of the instruments and effective interest rates are set out in note 12.

8. Cash and cash equivalents

	2021	2020
	£000	£000
Cash at bank and in hand	**266**	216
Cash and cash equivalents	**266**	216

The effective interest rate on short-term deposits as at 31 March 2021 was 0.01% (2020: 0.0%) and these deposits had an average maturity of one day.

9. Trade and other payables

	2021	2020
	£000	£000
Other payables	**66**	17
Accrued interest payable - intercompany	**-**	1,915
Accrued interest payable	**585**	967
Trade and other payables	**651**	2,899

10. Other financial liabilities - borrowings

	2021	2020
	£000	£000
Current		
Bonds	**31,061**	372,103
European Investment Bank loans	**24,545**	29,091
	55,606	401,194
Non-current		
Bonds	**3,382,763**	3,427,192
European Investment Bank loans	**98,750**	123,295
	3,481,513	3,550,487
Total	**3,537,119**	3,951,681

The principal terms of these borrowings as at 31 March 2021 were as shown below:

Instrument	Type	Rate	Maturity	Principal £000	Book value £000
Bonds					
Class A1	Fixed	6.0% fixed	31 March 2028	350,000	**451,477**
Class A4	Index-linked	3.5% + RPI	31 March 2030	265,000	**666,359**
Class A5	Index-linked	3.5% + RPI (5% collar)	31 March 2031	85,000	**221,943**
Class A6	Fixed	4.5%	31 March 2057	100,000	**156,151**
Class B3	Index-linked	4.4% + RPI	31 March 2026	128,600	**288,083**
Class B4	Index-linked	4.4% + RPI (5% collar)	31 March 2027	75,000	**178,351**
Class B5	Index-linked	1.4% + RPI	31 March 2057	50,000	**144,795**
Class B6	Index-linked	1.9% + RPI	31 March 2048	260,000	**486,645**
Class B7	Fixed	2.5%	31 March 2036	300,000	**325,040**
Class B8	Fixed	1.4%	31 March 2033	300,000	**296,164**
Class C3	Fixed	1.6%	31 March 2026	200,000	**198,816**
				2,113,600	**3,413,824**
European Investment Bank loans (amortising)					
23297	Floating	3 month LIBOR + 31 bps	15 December 2021	4,545	**4,545**
24642 tranche 1	Floating	3 month LIBOR + 31 bps	15 December 2023	7,500	**7,500**
24642 tranche 2	Floating	6 month LIBOR + 45 bps	15 April 2025	37,500	**37,500**
26030 tranche 1	Floating	3 month LIBOR + 82 bps	15 September 2026	13,750	**13,750**
26030 tranche 2	Floating	6 month LIBOR +76 bps	15 December 2028	60,000	**60,000**
				123,295	**123,295**
Total				2,236,895	**3,537,119**

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.

11. Other financial liabilities - derivative financial instruments

All derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IFRS 9. As such, movements in their fair values are taken to the Income Statement (see note 3). 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.

2021	**Fair values**	
	Assets £000	**Liabilities £000**
Current		
Index-linked swaps	**28,140**	**(6,670)**
Interest rate swaps	**-**	**(10,619)**
Interest rate swaps - intercompany	**10,619**	**-**
	38,759	**(17,289)**
Non-current		
Index-linked swaps	**-**	**(240,361)**
Interest rate swaps	**-**	**(74,052)**
Interest rate swaps - intercompany	**74,052**	**-**
	74,052	**(314,413)**
Derivative financial instruments	**112,811**	**(331,702)**

2020	Fair values	
	Assets £000	Liabilities £000
Current		
Index-linked swaps	36,094	(4,869)
Interest rate swaps	-	(10,009)
Interest rate swaps - intercompany	10,009	-
	46,103	(14,878)
Non-current		
Index-linked swaps	-	(195,609)
Interest rate swaps	-	(92,198)
Interest rate swaps - intercompany	92,198	-
	92,198	(287,807)
Derivative financial instruments	138,301	(302,685)

The notional values of the swaps are: interest rate swaps - £192m; index-linked swaps - £950m.

In accordance with IFRS 9, "Financial instruments", the Directors 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, and confirm that there are none.

Index-linked swaps
The index-linked swaps have the effect of index-linking the interest rate on £950m of fixed rate bonds by reference to the RPI (2020: £950m).

The principal terms are as follows:

Indexed notional amount:	£1,014m (2020: £1,001m)
Swap maturity:	18 years (2020: £19 years)
Interest rate:	0.15% (indexed by RPI) (2020: 0.14% indexed by RPI)

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. There have been no changes to the risk management department or in any risk management policies during the year.

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

11. Other financial liabilities - derivative financial instruments (continued)

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 assets or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
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 31 March 2021 were valued as follows:
- Assets: treasury derivatives £112.8m (2020: £138.3m).
- Liabilities: treasury derivatives £331.7m (2020: £302.7m).

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 instruments are valued using a discounted cash flow approach, which discount the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

12. Financial risk management

The policies of the Group in respect of financial risk management are included in the accounting policies note on page 17. The numerical financial instrument disclosures as required by IFRS 7 are set out below:

a) Interest rate risk

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

	2021	2020
Assets		
Cash and cash equivalents	0.1%	0.0%
Amounts owed by group undertakings	3.1%	3.5%
Liabilities		
Bonds	3.2%	4.1%
European Investment Bank loans	0.7%	1.5%

Other receivables and payables are non-interest bearing.

The effective interest rates exclude the effect of the interest rate swaps set out in note 11.

12. Financial risk management (continued)

b) Liquidity risk

2021	**< 1 year £000**	**1–2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Assets					
Cash and cash equivalents	**266**	-	-	-	**266**
Other financial assets:					
- loans to group undertakings	**119,981**	**116,000**	**831,676**	**3,741,808**	**4,809,465**
	120,247	**116,000**	**831,676**	**3,741,808**	**4,809,731**
Liabilities					
Bonds	-	-	**486,810**	**2,927,074**	**3,413,884**
European Investment Bank loans	**24,545**	**20,000**	**55,000**	**23,750**	**123,295**
Future interest payable	**96,970**	**98,270**	**294,100**	**611,600**	**1,100,940**
	121,515	**118,270**	**835,910**	**3,562,424**	**4,638,119**

2020	< 1 year £000	1–2 years £000	2-5 years £000	> 5 years £000	Total £000
Assets					
Cash and cash equivalents	216	-	-	-	216
Other financial assets:					
- loans to group undertakings	462,115	109,943	319,311	4,335,179	5,226,548
	462,331	109,943	319,311	4,335,179	5,226,764
Liabilities					
Bonds	432,039	85,702	264,307	4,050,884	4,832,932
European Investment Bank loans	31,191	26,345	61,000	42,650	161,186
Future interest payable					
	463,230	112,047	325,307	4,093,534	4,994,118

Bond liabilities and related loans to group undertakings reflect indexed cash flows for index-linked instruments based on a post 31 March 2021 assumption of RPI inflation of 3.0% (2020: 2.5%).

12. 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 12.

2021	**Book value £000**	**Fair value £000**
Fair value of financial assets		
- cash and cash equivalents	**266**	**266**
- loans to group undertakings (note 7)	**3,791,617**	**3,804,193**
	3,791,883	**3,804,459**
Fair value of financial liabilities		
- European Investment Bank loans (note 10)	**123,295**	**123,295**
- bonds (note 10)	**3,413,702**	**3,426,426**
- other payables (note 9)	**602**	**602**
	3,537,599	**3,550,323**

2020	Book value £000	Fair value £000
Fair value of financial assets		
- cash and cash equivalents	216	216
- other receivables	1,916	1,916
- loans to group undertakings (note 7)	4,197,402	4,140,150
	4,199,534	4,142,282
Fair value of financial liabilities		
- European Investment Bank loans (note 10)	152,386	152,386
- bonds (note 10)	3,799,295	3,742,043
- other payables (note 9)	2,899	2,899
	3,954,580	3,897,328

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:

	2021 £000	2020 £000
Expiring in less than one year		
Revolving credit facilities	**200,000**	170,000
	200,000	170,000

During the year the Company renewed all four of its revolving credit facilities and increased three of these by £10 million each, such that available commitment is now £200 million (2020: £170 million). The facilities are all available for two years with a one year extension option.

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

The Company has a special liquidity facility of £135 million which it is required to maintain in order to meet certain Group interest and other obligations that cannot be funded through the operating cash flow of the Group, in the event of a standstill being declared by the Security Trustee. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is provided by an insurance provider and is renewable on a five-year rolling, evergreen basis (next renewal due 3 April 2024).

12. Financial risk management (continued)

e) Capital risk management

Gearing ratios (Group – Glas Cymru Holdings Cyfyngedig)

	2021	2020
	£m	£m
Total borrowings	**(3,755)**	(4,119)
Less: cash and cash equivalents	**221**	667
Net debt	**(3,534)**	(3,452)
RCV	**6,010**	5,906
Total capital	**2,476**	2,454
Less: unamortised bond costs and bond swap indexation	**(77)**	(64)
Total capital per bond covenants	**2,399**	2,390
Gearing ratio	**60%**	60%

While the Company has no capital requirements, as set out on page 19 the Group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV.

13. Share capital and share premium

	2021	2020
	£	£
Authorised		
1 ordinary share of £1	**1**	1
50,000 ordinary shares of £1 each (£0.25)	**50,000**	50,000
	50,001	50,001
Allotted and fully paid		
1 ordinary share of £1	**3,032,680**	3,032,680
1 ordinary share of £1 (£0.25)	**1**	1
	3,032,681	3,032,681
Allotted and partly paid		
49,999 ordinary shares of £1 each (£0.25)	**49,999**	49,999
	3,082,680	3,082,680

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the period to 31 March 2020, the Company issued £49,999 ordinary shares of £1 each partly paid via a consideration of £12,500 and 1 ordinary share of £1 for a consideration of £3,032,680.

On 1 August 2019 the Company received a capital contribution amounting to £57,433,000, being the net fair value of asset and liability transfers from a fellow group company. Further information can be found on page 19.

14. Analysis and reconciliation of net funds

Net funds are 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:

	2021 £000	2020 £000
Cash and cash equivalents	**266**	216
Other financial assets:		
- group receivables	**3,791,617**	4,197,402
	3,791,883	4,197,618
Net accrued interest	**(585)**	(966)
Debt due after one year	**(3,481,513)**	(3,550,487)
Debt due within one year	**(55,606)**	(401,194)
	(3,537,704)	(3,952,647)
Net funds	**254,179**	244,971

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

	2021 £000	2020 £000
Net funds at start of year/period	**244,971**	-
Increase in net cash	**50**	216
(Decrease)/increase in receivables	**(405,785)**	420,730
Decrease/(increase) in debt	**434,983**	(196,906)
Increase in net funds arising from cash flows	**29,248**	224,040
Increase in net funds arising from acquisition	-	57,433
Amortisation of bond issue premium	**753**	730
Indexation of index-linked debt	**(21,174)**	(36,266)
Movement in accrued interest	**381**	(966)
Movement in net funds during the year/period	**(20,040)**	(36,502)
Net funds at the end of the year/period	**254,179**	244,971

15. 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) UK plc. Accordingly, the financial statements include no emoluments in respect of Directors.

16. Related party transactions

During the period to 31 March 2020 a transfer of assets and liabilities took place involving the Company and Dŵr Cymru (Financing) Limited.

Intercompany interest receivable from Dŵr Cymru Cyfyngedig (DCC), another member of the Glas Cymru Holdings Cyfyngedig Group, was £35,519,000 during the year (2020: £16,273,000). As at 31 March 2021 the balance outstanding on the intercompany loan to DCC stood at £3,790,781,000 (2020: £4,196,393,000). Other outstanding balances as at 31 March 2021 were accrued interest on the loan of £786,000 (2020: £959,000), an accrued swap receipt of £nil (2020: £1,915,000) and the closing fair value of the intercompany interest rate swap of £84,671,000 (2020: £102,207,000).

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 a margin of one basis point (0.01%).

As at 31 March 2021 a balance of £50,000 was owed by the parent company, Dŵr Cymru (Holdings) Cyfyngedig (2020: £50,000).

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 Holdings Cyfyngedig, both of which are registered in England and Wales. Registered Office: Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT. The largest and smallest groups within which the results of the Company are consolidated are those headed by Glas Cymru Holdings Cyfyngedig and Glas Cymru Anghyfyngedig respectively (consolidated financial statements can be obtained from the Company Secretary at Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT) or by emailing the Company Secretary at company.secretary@dwrcymru.com.

18. Post balance sheet events

Shortly after the financial year end, the Company successfully issued £300m in new bonds, which received a positive response from investors.

In addition, on 6 April 2021 the Company entered into swap contracts, which commenced from 9th April, effectively hedging the new debt issuance to the Retail Prices Index (RPI), with RPI indexation accreting on the balance sheet over the term.

The combined effect of these instruments generates a cash interest rate of -1.149% per annum until maturity in 2034 when the RPI-indexed principal (notional £300m x RPI) is repayable in full.

Contact address:
Linea
Fortran Road
St Mellons
Cardiff
CF3 0LT

Dŵr Cymru (Financing) UK plc

UK Registered Office: Linea, Fortran Road, St Mellons, Cardiff, CF3 0LT, United Kingdom

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) UK plc (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.

28 July 2021

Director:

Name: P M Davis