Dŵr Cymru (Financing) UK plc

Interim report and accounts
for the six months ended 30 September 2020

Contents

Interim management report

The Directors have pleasure in presenting their management report, together with the financial statements for the six months to 30 September 2020, on pages 3 to 11.

Principal activities
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).

Results and dividends
The loss before taxation amounted to £37,527,000 (period to 31 March 2020: profit of £20,071,000). No dividend was declared or paid during the period (period to 31 March 2020: none).

Business review
The Company was incorporated on 16 April 2019 and on 1 August 2019 commenced its activities as an investment company providing long-term funding for Dŵr Cymru Cyfyngedig ('DCC'), the only trading subsidiary in the Whole Business Securitisation of the Glas Cymru Holdings Cyfyngedig Group ('the Group').

No significant events have occurred during the period.

The Company has a special £135m liquidity facility (31 March 2020: £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).

Covid 19
On 11 March 2020 the World Health Organisation declared the coronavirus outbreak to be a pandemic and the virus has continued to spread throughout the UK after 31 March 2020.

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 30 September 2020, 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 7.

Brexit
For the UK as a whole Brexit has remained a high-profile issue throughout the period to 30 September 2020 and the Group committed much time and effort to assessing its potential impact, in particular that of a "no deal" Brexit on the operational water and sewerage business. The Directors are not aware of any related issues arising or likely to arise which may impact on the carrying value of the Company's debt. The Directors do not consider that Brexit is likely to have a material impact on the activities of the Company

Interim income statement

	Note	Six months ended 30 September 2020 (unaudited) £000	Period ended 31 March 2020 (audited) £000
Continuing activities			
- Financial income	4a	**22,016**	16,273
- Financial expenses	4a	**(26,345)**	(23,361)
- Fair value (losses)/gains on derivative financial instruments	4b	**(33,198)**	27,159
(Loss)/profit before taxation		**(37,527)**	20,071
Taxation credit	5	**1,439**	1,424
(Loss)/profit for the period		**(36,088)**	21,495

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 11 are an integral part to these financial statements.

Interim statement of changes in equity

	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings £000	Six months ended 30 September 2020 (unaudited) Total £000	Period ended 31 March 2020 (audited) Total £000
Surplus at start of period	**50**	**3,033**	**57,433**	**21,495**	**82,011**	-
Issue of share capital	-	-	-	-	**-**	3,083
Capital contribution	-	-	-	-	**-**	57,433
(Loss)/profit for the period	-	-	-	(36,088)	**(36,088)**	21,495
Surplus at end of period	**50**	**3,033**	**57,433**	**(14,593)**	**45,923**	82,011

The notes on pages 7 to 11 are an integral part to these financial statements.

Interim balance sheet

	At 30 September 2020 (unaudited)	At 31 March 2020 (audited)
Assets	**£000**	**£000**
Non-current assets		
Deferred tax asset	**2,905**	1,441
Other financial assets:		
- loans to group undertakings	**3,773,487**	3,795,238
- derivative financial instruments	**93,183**	92,198
	3,869,575	3,888,877
Current assets		
Cash and cash equivalents	**259**	216
Other financial assets:		
- loans to group undertakings	**399,910**	402,164
- derivative financial instruments	**46,955**	46,103
- other receivables	**-**	1,916
	447,124	450,399
Total Assets	**4,316,699**	4,339,276
Liabilities		
Current liabilities		
Trade and other payables	**(32,377)**	(2,899)
Other financial liabilities:		
- borrowings	**(398,169)**	(401,194)
- derivative financial instruments	**(15,755)**	(14,878)
	(446,301)	(418,971)
Net current assets	**823**	31,428
Non-current liabilities		
Other financial liabilities:		
- borrowings	**(3,499,600)**	(3,550,487)
- derivative financial instruments	**(324,875)**	(287,807)
	(3,824,475)	(3,838,294)
Total Liabilities	**(4,270,776)**	(4,257,265)
Net assets	**45,923**	82,011
Equity		
Share capital	**50**	50
Share premium	**3,033**	3,033
Capital contribution reserve	**57,433**	57,433
Retained earnings	**(14,593)**	21,495
Total equity	**45,923**	82,011

The interim financial statements on pages 3 to 6 were approved by the Board of Directors on 5 November 2020 and were signed on its behalf by:

Mike Davis
Director

The notes on pages 7 to 11 are an integral part to these financial statements.

Interim statement of cash flows

	Six months ended 30 September 2020 (unaudited) £000	Period ended 31 March 2020 (audited) £000
Cash flows from operating activities		
Interest received	**44,299**	114,601
Interest paid	**(44,256)**	(114,397)
Net cash flow from operating activities	**43**	204
Cash flows from financing activities		
Issue of shares	**-**	12
Loan issued to group undertakings	**-**	(494,369)
Loan repaid by group undertaking	**17,045**	15,568
Bond issue	**-**	500,000
Bond issue costs	**-**	(5,631)
Long-term loans repaid	**(17,045)**	(15,568)
Net cash flow from financing activities	**-**	12
Increase in cash and cash equivalents	**43**	216
Cash and cash equivalents at start of period	**216**	-
Cash and cash equivalents at end of period	**259**	216

Notes to the condensed interim financial statements

1. Basis of preparation

Dŵr Cymru (Financing) UK plc (the Company) is a public limited company incorporated, domiciled and registered in England and Wales in the UK. The registered number is 11949988 and the registered address is Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY. 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.

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 financial statements for the period ended 31 March 2020. 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 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 period ended 31 March 2020.

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 period ended 31 March 2020 with the exception of changes in estimates that are required in determining the provision for income taxes.

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 financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of up to ten 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 30 September 2020 and its forecasts through to March 2023, 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.

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 2025.

This baseline plan reflects social distancing continuing through the autumn, with gradual lifting of restrictions. Unemployment is assumed to be around 10%, recovering to pre-pandemic levels by 2023; CPIH falls to an average of 1.0% during 2020 and recovers to the government's long-term target of 2% by the end of 2022. The estimated impacts on turnover in 2020/21 is a £19m reduction in non-household revenues of £172m (11%, demand-driven) and £10m of reductions in other revenues e.g. from construction activity (25%) – a net reduction of £29m (however under regulatory mechanisms lost revenues are recoverable in future years).

Notes to the condensed interim financial statements

1. Basis of preparation (continued)

Going concern (continued)

This baseline plan has then been subject to a further more extreme downside stress scenario, which assumes an additional drop in CPIH below 1%, recovering to 2% by March 2023 and unemployment at around 12%. Consequential impacts on the Group's cost base are greater pressure on bad debts (circa £9m per annum through to 2022/23) and delays in the delivery of cost efficiencies in 2020/21 (£9 million), 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.

The Company and group cash flow forecasts give the Directors confidence that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months form the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Deferred taxation

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

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

Deferred corporation tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates that have been substantively enacted at the balance sheet date.

2. Transfer of assets and liabilities

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, 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). Under IFRS 9, following initial recognition these assets and liabilities are valued at amortised cost.

Fair value estimation on initial recognition

The assets and liabilities identified following the transfer consisted of derivatives, term loans, bonds, an intercompany loan and other receivables/payables. As these all fall within the scope of IFRS 9 (Financial Instruments), the Directors went through an exercise to recognise these at fair value as at 1 August 2019.

Note that as a result of the initial recognition exemption under IAS 12 (Income taxes), no deferred tax has been recognised on temporary differences arising from the novation of loans, bonds or derivative financial instruments

3. 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

4. Net financial expense

a) Financing cost before fair value (losses)/gains	**Six months ended 30 September 2020 £000 (unaudited)**	**Period ended 31 March 2020 £000 (audited)**
Financial income:		
Intercompany	**22,016**	16,273
Financial expenses:		
Interest payable	**(26,345)**	(23,361)
Net financial expense before fair value adjustments	**(4,329)**	(7,088)

b) Fair value (losses)/gains on derivative financial instruments	**Six months ended 30 September 2020 £000 (unaudited)**	**Period ended 31 March 2020 £000 (audited)**
Fair value (losses)/gains on interest rate swaps	**(33,198)**	27,159

4. Taxation

	Six months ended 30 September 2020 £000 (unaudited)	**Period ended 31 March 2020 £000 (audited)**
Corporation tax		
Group relief	**(25)**	(17)
Deferred tax		
Current year movements	**1,464**	1,441
	1,439	1,424
(Loss)/profit before tax	**(37,527)**	20,071
(Loss)/profit before tax multiplied by the corporation tax in the UK of 19%	**(7,130)**	3,813
Effects of:		
Release of fair value adjustments - not deductible for tax	**847**	1,364
Fair value movements on derivatives on which deferred tax is not provided	**4,844**	(6,601)
Total taxation credit	**(1,439)**	(1,424)

Notes to the condensed interim financial statements

5. Analysis and reconciliation of net funds

a) Net funds at the balance sheet date may be analysed as:	**Six months ended 30 September 2020 £000 (unaudited)**	**Period ended 31 March 2020 £000 (audited)**
Cash and cash equivalents	**259**	216
Financial assets: group receivables	**4,173,397**	4,197,402
	4,173,656	4,197,618
Net accrued interest	**(32,335)**	(966)
Debt due after one year	**(3,499,600)**	(3,550,487)
Debt due within one year	**(398,169)**	(401,194)
	(3,930,104)	(3,952,647)
Net funds	**243,552**	244,971

b) The movement in funds debt during the period may be summarised as:	**Six months ended 30 September 2020 £000 (unaudited)**	**Period ended 31 March 2020 £000 (audited)**
Net funds at start of period	**244,971**	-
Increase in net cash	**43**	216
Increase in receivables	**(24,005)**	420,730
Decrease in debt	**57,507**	(196,906)
Increase in net funds arising from cash flows	**33,545**	224,040
Increase in net funds arising from acquisition	-	57,433
Amortisation of bond issue premium	**378**	730
Indexation of index-linked debt	**(3,973)**	(36,266)
Movement in accrued interest	**(31,369)**	(966)
Movement in net funds during the period	**(34,964)**	(36,502)
Net debt at end of period	**243,552**	244,971

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 2020. There have been no changes in the risk management department or in any risk management policies since the year end.

6. Financial risk management and financial instruments (continued)

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 2020 were valued as follows:

- Assets: treasury derivatives £140.1m (March 2020: treasury derivatives £138.3m); and
- Liabilities: treasury derivatives £340.6m (March 2020: treasury derivatives £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 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) UK plc

Contact Address
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

Dŵr Cymru (Financing) UK plc

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

Director
Name: Mike Davis

5 November 2020