UK Registered № 11949988

Dŵr Cymru (Financing) UK plc

Annual report and financial statements
for the year ended 31 March 2022

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

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Strategic report

The Directors present the Strategic Report of Dŵr Cymru (Financing) UK plc for the year ended 31 March 2022.

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 (before the impact of fair value gains or losses on derivative financial instruments) 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.

<u>Performance to 31 March 2022</u>
For the year to 31 March 2022 the Company reported a loss before taxation of £91,988,000 (2021: £45,299,000 loss), principally reflecting changes in the fair value of derivative financial instruments (2022: £100,278,000 loss, 2021: £41,864,000 loss).

On 9 April 2021 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).

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.

As at 31 March 2022 net liabilities stood at £24,047,000 (2021: net assets £41,693,000); these represent issued share capital and share premium of £3,083,000 (2021: £3,083,000), a capital contribution reserve of £57,433,000 (2021: £57,433,000) and a retained deficit of £84,563,000 (2021: retained deficit of £18,823,000) 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	A1	AA	A
B	A3	A-	A
C	Baa2	BBB	BBB+

Performance to 31 March 2022 (continued)
The credit ratings of the Company's class A bonds, which are guaranteed by Assured Guaranty Europe plc ("AG") (A1/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 were 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
The Company exercised the one year extension of one of our revolving credit facility amounting to £60m which has been extended to 23 May 2023. The company received approval of the extension from BNPP on 13 May 2022 and remain undrawn at the date of the signed financial statements.

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 2022, 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.

The Company's net balance sheet position is sensitive to movements in the fair value of derivative financial instruments, which was the primary reason for why the Company has entered a net liability position as at 31 March 2022. The Directors do not foresee this to be a significant issue, 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.

Key performance indicators, trends and non-financial information
The Group is required under its Common Terms Agreement with bondholders to publish an Investor Report 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 2022, forecast 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.

Strategic report (continued)

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 page 56 of the Strategic Report in the Glas Cymru 2021-22 Annual Report and Accounts, a copy of which is available to view at Glas Cymru Annual Report and Accounts 2021-2022, sets out the board decision making in relation to our stakeholders.

By order of the Board.

N Williams
Company Secretary

22 July 2022

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 2022 on pages 11 to 30.

Directors
The Directors who held office during the year and 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.

P Perry
P M Davis
R Morgan (alternate director to P M Davis)

Going concern
The Directors have prepared cash flow forecasts which indicate that the Group, and by virtue of this 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 can be found under "going concern" in the notes to the financial statements on page 15. 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 2022 (year to 31 March 2021: none).

Political donations
The Company made no political donations and incurred no political expenditure during the year to 31 March 2022 (year to 31 March 2021: 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 2022 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

22 July 2022

Statement of Directors’ responsibilities in respect of the Annual report, Strategic report, the Director’s report and the Financial Statements

The directors are responsible for preparing the Annual Report, 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 UK-adopted international accounting standards 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 UK-adopted international accounting standards;
- 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Our opinion is unmodified

We have audited the financial statements of Dwr Cymru Financing (UK) PLC] ("the Company") for the year ended 31 March 2022 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 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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
(£4.2bn; 2021: £3.8bn)
Refer to page 17 (accounting policy) and page 22 (financial disclosure)

The risk
Low risk, high value

The carrying amount of the loans to group undertakings balance represents 89.7% (2021: 96.9%) 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 performed.

Our procedures included:

- **Test of detail:** We compared 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**: We reviewed 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:** We critically assessed the adequacy of the Company's disclosures in respect of the intra-group receivables.

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

Materiality for the financial statements as a whole was set at £32m (2021: £31m), determined with reference to a benchmark of total assets (of which it represents 0.8% (2021: 0.8%)).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £24.0m (2021: £23.2m). 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 Audit Committee any corrected or uncorrected identified misstatements exceeding £1.6m (2021: £1.6m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed by a single audit team.

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 over this period were:

- The ability and intent of Glas Cymru Holdings Cyfyngedig to provide financial support.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively. Our procedures also included the below.

- Since the entity may need financial support from other group entities, we assessed the risk that this support would not be available. We inspected the letter received by the directors indicating the group's intention to provide this support, examined internally provided projections to assess its ability to provide this support over the period of the audited entity's going concern assessment, and assessed the business reasons why the group may or may not choose to provide this support.
- We 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, 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 entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the company does not generate any external revenue.

We did not identify any additional fraud risks.

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 included cash, borrowings and intercompany entries made to unrelated accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement related to 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), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations (continued)

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

Fraud and breaches of laws and regulations – ability to detect (continued)

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

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.

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.

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

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

22 July 2022

Income statement for the year ended 31 March 2022

Continuing activities	Note	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Financial income	3	**166,999**	35,519
Financial expenses	3	**(158,709)**	(38,954)
Fair value losses on derivative financial instruments	3	**(100,278)**	(41,864)
Operating loss		**(91,988)**	(45,299)
Loss before taxation		**(91,988)**	(45,299)
Taxation	5	**26,248**	4,981
Loss for the year		**(65,740)**	(40,318)

The Company has no other recognised gains or losses in the period and therefore the above represents total comprehensive income.

The notes on pages 15 to 30 form part of these financial statements.

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Balance sheet as at 31 March 2022

	Note	**31 March 2022 £000**	31 March 2021 £000
Assets			
Non-current assets			
Deferred tax	6	**32,767**	6,471
Other financial assets:			
- loans to group undertakings	7	**4,148,899**	3,734,940
- derivative financial instruments	11	**384,538**	74,052
		4,566,204	3,815,463
Current assets			
Cash and cash equivalents	8	**719**	266
Other financial assets:			
- loans to group undertakings	7	**20,000**	56,677
- derivative financial instruments	11	**60,084**	38,759
		80,803	95,702
Total assets		**4,647,007**	3,911,165
Liabilities			
Current liabilities			
Trade and other payables	9	**(732)**	(651)
Other financial liabilities:			
- borrowings	10	**(20,000)**	(55,606)
- derivative financial instruments	11	**(17,243)**	(17,289)
		(37,975)	(73,546)
Net current assets		**42,828**	22,156
Non-current liabilities			
Other financial liabilities:			
- borrowings	10	**(3,792,978)**	(3,481,513)
- derivative financial instruments	11	**(840,101)**	(314,413)
		(4,633,079)	(3,795,926)
Total liabilities		**(4,671,054)**	(3,869,472)
Net (liabilities)/assets		**(24,047)**	41,693
Equity			
Share capital	13	**50**	50
Share premium	13	**3,033**	3,033
Capital contribution reserve		**57,433**	57,433
Retained earnings		**(84,563)**	(18,823)
Total equity		**(24,047)**	41,693

The financial statements on pages 11 to 30 was approved by the Board of Directors on 22 July 2022 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 2022

	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
At 1 April 2020	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
Loss for the year	**-**	**-**	**-**	**(65,740)**	**(65,740)**
At 31 March 2022	**50**	**3,033**	**57,433**	**(84,563)**	**(24,047)**

Cash flow statement for the year ended 31 March 2022

	Note	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Cash flow from operating activities			
Interest received		**156,560**	200,427
Interest paid		**(156,107)**	(200,377)
Net cash flow from operating activities		**453**	50
Cash flow from financing activities			
Loan issued to group undertakings		**(297,942)**	-
Loan repaid by group undertaking		**24,545**	354,091
Bond repayment		**-**	(325,000)
Bond issue		**300,000**	-
Bond issue costs		**(2,058)**	-
Term loans repaid		**(24,545)**	(29,091)
Net cash flow from financing activities		**-**	-
Increase in cash and cash equivalents	14b	**453**	50
Cash and cash equivalents at beginning of year		**266**	216
Cash and cash equivalents at 31 March	8	**719**	266

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 accordance with UK-adopted international accounting standard ("UK-adopted IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of other 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 20.

Accounting policies for the year ended 31 March 2022
The principal accounting policies adopted in the preparation of these financial statements are set out below.

Going concern
Notwithstanding net liabilities of £24.0m as at 31 March 2022 and a loss for the year then ended of £65.7m, 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 performed a going concern assessment which indicates that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent company, Glas Cymru Holdings Cyfyngedig, to meet its liabilities as they fall due for at least the next 12 months.

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Company in the form of cash and committed bank facilities as well as consideration of the Company's capital adequacy and the ability of Glas Cymru Holdings Cyfyngedig to provide financial support.

The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The financial plan, prepared for the Group headed by Glas Cymru Holdings Cyfyngedig, has been subjected to a number of severe but plausible downside scenarios in order to assess the Group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. The directors have also assessed the potential impacts resulting from the conflict in Ukraine with primary impacts linked to cost volatility associated with energy prices and high inflation, and secondary supply chain and chemical price impacts, none of which pose a significant concern to the Group, and therefore impact the Company's ability to continue as a going concern.

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

Going concern (continued)
The assessment is dependent on Glas Cymru Holdings Cyfyngedig providing additional financial support during the going concern assessment period. Glas Cymru Holdings Cyfyngedig has indicated its intention to continue to make available such funds as are needed by the company during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Changes in accounting policies and disclosures

The following new standards, amendments and interpretations have been adopted by the Company for the first time for the financial year beginning on 1 April 2021:

- **IFRS 9** 'Financial Instruments'**, IAS 39** 'Financial Instruments: Recognition and Measurement', **IFRS 16** 'Leases' and **IFRS 7** 'Financial Instruments: Disclosure amendments relating to Interest Rate Benchmark Reform ('IBOR') reform Phase 1 and 2.

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

IFRS9, IAS 39, IFRS 16 and IFRS 7 amendments relating to IBOR (Phase 2):

In 2021, the Secretary of State for BEIS and the EU endorsed the IASB-published amendments to IFRS 9 'Financial Instruments', and IFRS 7 'Financial Instruments: Disclosures' in respect of interest rate benchmark reform, effective for annual periods beginning on or after 1 January 2021. The amendments address the financial reporting impact from reform of the London Interbank Offered Rate (LIBOR) and similar benchmark interest rates (IBOR Reform). On 1 January 2022, the Bank of England transitioned to the alternative risk-free rate, Sterling Overnight Index Average (SONIA).

Treasury risks and transactions are managed at a Group level, therefore references to "Group" below relate to the Glas Cymru Holdings Cyfyngedig Group:

The Group will take the relevant practical expedients from certain requirements in IFRS 9 and IFRS 7 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, including lease liabilities. The practical expedients available for hedge accounting is not applicable as the Group does not apply hedge accounting. At 31 March 2022, the Group had a net balance of £3,537 million relating to financial liabilities, along with an additional £200 million of undrawn committed facilities (revolving credit facility), referencing SONIA. The Group has not incurred any material gain or loss in the current year arising from the replacement of LIBOR with the alternative risk-free rate SONIA. For transparency and understanding of the impact the IBOR reforms have on the Group'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. Several of the Group's bilateral treasury contracts are impacted by this transition. The Group's risk exposure is made up of £1,639 million of floating rate nominal debt consisting of a mixture of loans, leases, and revolving credit facility ('RCF'), offset by £661 million notional swaps value. The Group has hedged this debt with interest rate swaps and index-linked swaps, although the Group does not hedge account for any of its derivatives. At 31 March 2022, the Group had fixed the interest rate through interest rate swaps on £192 million of floating rate liabilities, and index-linked the interest rate on £389 million notional value of lease liabilities by reference to the Retail Price Index.

Throughout the year, the Group implemented changes to amend the majority of contractual terms of GBP LIBOR-referenced floating-rate debt and swaps to defer the impact of the LIBOR transition to SONIA to financial year 2023. The changes on other liabilities will be monitored closely with the impact not expected to be material. The impact on the Company to date and in future is aligned to the Group.

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:

Amendments
- **IAS 1** amendments – Classification of liabilities
- **IAS 1** amendments – Presentation of financial statements and **IFRS Practice Statement 2** –Making materiality judgements
- **IAS 8** amendments - Distinction between accounting policies and accounting estimates
- **IAS 12** amendments - Deferred tax related to assets and liabilities arising from a single transaction
- **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
Loans to group undertakings
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.

Other receivables
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.

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 adjustments for both counterparty and 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 2022, 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 25% (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.

Financing income and expenses

Financing expenses include interest payable, indexation on index-linked borrowings, index-linked swaps recognised in profit or loss using the effective interest method. Financing income comprise interest, indexation and index-linked swaps receivable on intercompany loans recognised in profit or loss using the effective interest method.

Financing risk management objectives and policies
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 timed deposits are placed for a maximum of three months with banks subject to minimum long-term rating criteria of A-/A3/A-.

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 2022 amounted to £3,813m (2021: £3,537m). Cash and cash equivalents in the Company of £0.7m (2021: £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 amongst the highest credit ratings in the water sector for a number of years and, as at 31 March 2022, 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	1,478,176	A1	AA	A
Class B bonds	1,739,714	A3	A-	A
Class C bonds	496,338	Baa2	BBB	BBB+
Term loans	98,750	-	-	-
	3,812,978			

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 2022, the Group had hedges covering 100% of its total outstanding financial liabilities into either index-linked or fixed rate obligations, including free cash balances (2021: 99%). 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

Interest rate risk (continued)

£3,813m as at 31 March 2022, (2021: £3,537m), 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 £3,813m (2021: £3,537m) 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.

Last year the Group renewed all four of its revolving credit facilities and increased three of them by £10m each. As at 31 March 2022, the group had committed undrawn borrowing facilities of £200m (2021: £200m) and net cash and cash equivalents (excluding debt service payments account) of £473m (2021: £187m). These undrawn facilities are available for one year with a one year extension option. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2022 there was also a special liquidity facility of £135m (2021: £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 2022 gearing was 58% (2021: 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.

Accounting estimates and judgements

Accounting estimate: derivative financial instruments

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).

Accounting estimates and judgements (continued)

All of the Company's derivatives are categorised at Level 2 and as at 31 March 2022 were valued as follows:
- Assets: treasury derivatives £444.6m (2021: £112.8m)
- Liabilities: treasury derivatives £857.3m (2021: £331.7m)

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.

An adjustment factor is applied to the counterparty swap valuations to take into account the Company's own and counterparties 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 £16.7m, (2021: £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

	2022	2021
	£000	£000
Financial income:		
- intercompany	**166,999**	35,519
	166,999	35,519
Financial expenses:		
- interest payable	**(158,709)**	(38,954)
Fair value losses on derivative financial instruments before indexation	**(100,278)**	(41,864)
Net financial income	**(91,988)**	(45,299)

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 £30,800 (2021: £29,900) have been borne by a fellow Group company.

5. Taxation

	2022	2021
	£000	£000
Corporation tax		
- group relief received	**(48)**	(49)
Deferred tax		
- current period credit	**26,296**	5,030
Taxation credit	**26,248**	4,981

Total tax reconciliation	**2022 £000**	2021 £000
Loss before taxation	**(91,988)**	(45,299)
Loss before taxation multiplied by the corporation tax rate in the UK of 19% (2021:19%)	**17,478**	8,607
Effect of:		
Release of fair value adjustments – non-taxable/(deductible)	**1,526**	(701)
Fair value movements on derivatives not deductible for tax	**(620)**	(2,925)
Effect of tax rate changes – deferred taxes calculated at 25% (31 March 2021: 19%)	**7,864**	-
Taxation credit	**26,248**	4,981

Corporation tax reconciliation	**2022 £000**	2021 £000
Loss before taxation	**(91,988)**	(45,299)
Loss before taxation multiplied by the corporation tax rate in the UK of 19%	**17,478**	8,607
Effect of:		
Release of fair value adjustments – non-taxable/(deductible)	**1,526**	(701)
Fair value movements on derivatives – not deductable for tax	**(19,052)**	(7,955)
Taxation charge	**48**	49

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 are 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 25% (2021: 19%).

The movement in deferred tax is as shown below:

	2022	2021
	£000	£000
At beginning of period	**6,471**	1,441
Credit to income statement	**26,296**	5,030
At 31 March	**32,767**	6,471
Deferred tax comprises:		
Derivative financial instruments	**32,767**	6,471

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 took out in February 2020 and April 2021. 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.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future tax charge accordingly As at 31 March 2022, deferred tax was provided at the rate of 25% (2021: 19%). None of the temporary differences are expected to reverse in the year ending 31 March 2023, when the rate of 19% will still apply.

7. Other financial assets – loans to group undertakings

	2022	2021
	£000	£000
Non-current		
Loans to group undertakings	**4,148,899**	3,734,940
Current		
Loans to group undertakings	**20,000**	56,677

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

	2022	2021
	£000	£000
Cash at bank and in hand	**719**	266
Cash and cash equivalents	**719**	266

The effective interest rate on short-term deposits as at 31 March 2022 was 0.01% (2021: 0.01%) and these deposits had an average maturity of one day (2021: one day).

9. Trade and other payables

	2022	2021
	£000	£000
Other payables	**114**	66
Accrued interest payable	**618**	585
Trade and other payables	**732**	651

10. Other financial liabilities - borrowings

	2022	2021
	£000	£000
Current		
Bonds	**-**	31,061
European Investment Bank loans	**20,000**	24,545
	20,000	55,606
Non-current		
Bonds	**3,714,228**	3,382,763
European Investment Bank loans	**78,750**	98,750
	3,792,978	3,481,513
Total	**3,812,978**	3,537,119

The principal terms of these borrowings as at 31 March 2022 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	**437,675**
Class A4	Index-linked	3.5% + RPI	31 March 2030	265,000	**663,941**
Class A5	Index-linked	3.5% + RPI (5% collar)	31 March 2031	85,000	**221,448**
Class A6	Fixed	4.5%	31 March 2057	100,000	**155,113**
Class B3	Index-linked	4.4% + RPI	31 March 2026	128,600	**284,671**
Class B4	Index-linked	4.4% + RPI (5% collar)	31 March 2027	75,000	**176,313**
Class B5	Index-linked	1.4% + RPI	31 March 2057	50,000	**146,715**
Class B6	Index-linked	1.9% + RPI	31 March 2048	260,000	**511,953**
Class B7	Fixed	2.5%	31 March 2036	300,000	**323,578**
Class B8	Fixed	1.4%	31 March 2033	300,000	**296,484**
Class C3	Fixed	1.6%	31 March 2026	200,000	**199,057**
Class C4	Fixed		31 March 2034	300,000	**297,280**
				2,413,600	**3,714,228**
European Investment Bank loans (amortising)					
24642 tranche 1	Floating	3-month SONIA + 31 bps	15 December 2023	5,000	**5,000**
24642 tranche 2	Floating	6 month SONIA + 45 bps	15 April 2025	30,000	**30,000**
26030 tranche 1	Floating	3 month SONIA + 82 bps	15 September 2026	11,500	**11,500**
26030 tranche 2	Floating	6 month SONIA +76 bps	15 December 2028	52,250	**52,250**
				98,750	**98,750**
Total				2,512,350	**3,812,978**

A fixed credit adjustment spread is applied based on the term of the fix, as a result of the transition from LIBOR to SONIA. 3 month = 0.1193%, 6 month = 0.2766% applied on top of the rates disclosed in the table above.

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

10. Other financial liabilities – borrowings (continued)

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.

2022	**Fair values**	
	Assets	**Liabilities**
	£000	**£000**
Current		
Index-linked swaps	**52,626**	**(9,785)**
Interest rate swaps	**-**	**(7,458)**
Interest rate swaps - intercompany	**7,458**	**-**
	60,084	**(17,243)**
Non-current		
Index-linked swaps	**333,729**	**(789,292)**
Interest rate swaps	**-**	**(50,809)**
Interest rate swaps - intercompany	**50,809**	**-**
	384,538	**(840,101)**
Derivative financial instruments	**444,622**	**(857,344)**

2021	Fair values	
	Assets	Liabilities
	£000	£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)

The notional values of the swaps are: interest rate swaps - £192m (2021: £192m); index-linked swaps - £1,250m (2021: £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 £1,250m of fixed rate bonds by reference to the RPI (2021: £950m).

The principal terms are as follows:

Indexed notional amount:	£1,407m (2021: £1,014m)
Swap maturity:	16 years (2021: 18 years)
Interest rate:	0.16% (indexed by RPI) (2021: 0.15% indexed by RPI)

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

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;

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 2022 were valued as follows:
- Assets: treasury derivatives £444.6m (2021: £112.8m).
- Liabilities: treasury derivatives £857.3m (2021: £331.7m).

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 18. 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:

	2022	2021
Assets		
Cash and cash equivalents	0.0%	0.1%
Amounts owed by group undertakings	3.1%	3.1%
Liabilities		
Bonds	3.1%	3.2%
European Investment Bank loans	1.0%	0.7%

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

2022	**< 1 year £000**	**1–2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Assets					
Cash and cash equivalents	**719**	-	-	-	**719**
Other financial assets:					
- loans to group undertakings	**128,069**	**124,400**	**843,610**	**4,120,095**	**5,216,174**
	128,788	**124,400**	**843,610**	**4,120,095**	**5,216,893**
Liabilities					
Bonds	-	-	**659,950**	**3,054,278**	**3,714,228**
European Investment Bank loans	**20,000**	**20,000**	**43,750**	**15,000**	**98,750**
Future interest payable	**109,600**	**106,700**	**304,600**	**600,300**	**1,121,200**
	129,600	**126,700**	**348,350**	**3,669,578**	**4,934,178**

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

Bond liabilities and related loans to group undertakings reflect indexed cash flows for index-linked instruments based on a post 31 March 2022 assumption of RPI inflation of 9.7% for a year, reducing to 3% in three years (2021: 3.0%).

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 11.

2022	**Book value £000**	**Fair value £000**
Fair value of financial assets		
- cash and cash equivalents	**719**	**719**
- loans to group undertakings (note 7)	**4,168,899**	**4,058,849**
	4,169,618	**4,059,568**
Fair value of financial liabilities		
- European Investment Bank loans (note 10)	**98,750**	**98,750**
- bonds (note 10)	**3,714,228**	**3,604,178**
- other payables (note 9)	**732**	**732**
	3,813,710	**3,703,660**

12. Financial risk management (continued)

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

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:

	2022 £000	2021 £000
Expiring in more than one year		
Revolving credit facilities	**200,000**	200,000
	200,000	200,000

Last year the Group 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 (2021: £200 million). The facilities are all available for one year with a one-year extension option. There is also a £10 million overdraft facility renewable on an annual basis.

As at 31 March 2022 there was also a special liquidity facility of £135 million (2021: £135 million); 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. A standstill would arise in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. The facility is a five-year evergreen facility provided by an insurer.

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

12. Financial risk management (continued)

e) Capital risk management

Gearing ratios (Group – Glas Cymru Holdings Cyfyngedig)

	2022	2021
	£m	£m
Total borrowings	**(4,066)**	(3,755)
Less: cash and cash equivalents	**515**	221
Net debt	**(3,551)**	(3,534)
RCV	**6,460**	6,010
Total capital	**2,909**	2,476
Less: unamortised bond costs and bond swap indexation	**(171)**	(77)
Total capital per bond covenants	**2,738**	2,399
Gearing ratio	**58%**	60%

While the Company has no capital requirements 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

	2022	2021
	£	£
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.

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:

	2022 £000	2021 £000
Cash and cash equivalents	**719**	266
Other financial assets:		
- group receivables	**4,168,899**	3,791,617
	4,169,618	3,791,883
Net accrued interest	**(618)**	(585)
Debt due after one year	**(3,792,978)**	(3,481,513)
Debt due within one year	**(20,000)**	(55,606)
	(3,813,596)	(3,537,704)
Net funds	**356,022**	254,179

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

	2022 £000	2021 £000
Net funds at start of year	**254,179**	244,971
Increase in net cash	**453**	50
Increase/(decrease) in receivables	**377,282**	(405,785)
(Increase)/ decrease in debt	**(209,623)**	434,983
Increase in net funds arising from cash flows	**168,112**	29,248
Amortisation of bond issue premium	**775**	753
Indexation of index-linked debt	**(67,011)**	(21,174)
Movement in accrued interest	**(33)**	381
Movement in net funds during the year	**(66,269)**	(20,040)
Net funds at the end of the year	**356,022**	254,179

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

Intercompany interest receivable from Dŵr Cymru Cyfyngedig (DCC), another member of the Glas Cymru Holdings Cyfyngedig Group, was £166,999,000 during the year (2021: £35,519,000). As at 31 March 2022 the balance outstanding on the intercompany loan to DCC stood at £4,168,230,000 (2021: £3,790,781,000). Other outstanding balances as at 31 March 2022 were accrued interest on the loan of £619,000 (2021: £786,000), and the closing fair value of the intercompany interest rate swap of £58,267,000 (2021: £84,671,000).

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 2022 a balance of £50,000 was owed by the parent company, Dŵr Cymru (Holdings) Cyfyngedig (2021: £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.

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.

22 July 2022

Director:

PMDavis

Name: P M Davis