

Dŵr Cymru (Financing) UK plc

Interim report and accounts

for the six months ended 30 September 2019

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Interim management report

The Directors have pleasure in presenting their management report, together with the financial statements for the period to 30 September 2019, on pages 3 to 10.

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.

Business review, results and dividends

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

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

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

As a business combination under common control, the Directors consider the transaction to fall outside of the scope of IFRS 3; assets and liabilities transferred on 1 August 2019 have therefore been recognised at predecessor value, with a corresponding debit to retained earnings.

The Company commenced trading on 1 August 2019 and these interim financial statements therefore reflect two months of activity to 30 September 2019; the loss before taxation amounted to £669,000.

No dividend was declared or paid during the period.

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

Interim income statement

		Period ended 30 September 2019 (unaudited) £000
Continuing activities	Note	
Operating profit		-
- Financial income	4a	21,579
- Financial expenses	4a	(21,553)
- Fair value losses on derivative financial instruments	4b	(695)
Net financial expense		<u>(669)</u>
Loss before taxation		<u>(669)</u>
Taxation	5	113
Loss for the period		<u>(556)</u>

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

The notes on pages 7 to 10 form part of these financial statements.

Interim balance sheet

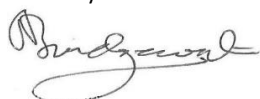
30 September

2019

(unaudited)

Assets	Note	£000
Non-current assets		
Deferred tax	5	23,264
Other financial assets:		
- loans to group undertakings		2,590,028
- derivative financial instruments		94,292
		<u>2,707,584</u>
Current assets		
Cash and cash equivalents		45
Other financial assets:		
- loans to group undertakings		56,150
- derivative financial instruments		13,106
- other receivables		39
		<u>69,340</u>
Total assets		2,776,924
Liabilities		
Current liabilities		
Trade and other payables		(26,406)
Other financial liabilities:		
- borrowings		(29,728)
- derivative financial instruments		(10,546)
		<u>(66,680)</u>
Net current assets		2,660
Non-current liabilities		
Other financial liabilities:		
- borrowings		(2,544,880)
- derivative financial instruments		(278,844)
		<u>(2,823,724)</u>
Total liabilities		(2,890,404)
Net liabilities		<u>(113,480)</u>
Equity		
Share capital	6	3,045
Retained earnings		(116,525)
Total equity		<u>(113,480)</u>

The interim financial statements on pages 3 to 10 were approved by the Board of Directors on 7 November 2019 and were signed on its behalf by:



Peter Bridgewater
Director

Interim statement of changes in equity

	Note	Share capital (unaudited) £000	Retained earnings (unaudited) £000	Total equity (unaudited) £000
On incorporation		-	-	-
Issue of share capital	6	3,045	-	3,045
Business combination	2	-	(115,969)	(115,969)
Loss for the period		-	(556)	(556)
At 30 September 2019		3,045	(116,525)	(113,480)

Interim statement of cash flows

	Period ended 30 September 2019 (unaudited) £000
Cash flows from operating activities	
Interest received	24,789
Interest paid	(24,751)
Net cash flow from operating activities	<u>38</u>
Cash flows from financing activities	
Loans repaid by group undertakings	3,530
Long-term loans repaid	(3,523)
Net cash flow from financing activities	<u>7</u>
Increase in cash and cash equivalents	45
Cash and cash equivalents at start of period	-
Cash and cash equivalents at end of period	<u>45</u>

Notes to the condensed interim financial statements

1. Basis of preparation

Dŵr Cymru (Financing) UK plc (the Company) is incorporated in Wales in the UK (registered number 11949988). The Company's business is solely to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig.

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. 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 its incorporation.

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.

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.

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

Going concern

The Directors believe that preparation of the financial statements on a going concern basis is appropriate due to continued financial support from the ultimate parent company, Glas Cymru Holdings Cyfyngedig. The Directors have received confirmation that the Group intends to support the Company for at least one year after these financial statements are signed.

The company is in a net liabilities position as at 30 September 2019. This does not present a risk to cash flow or funding; £182 million of net liabilities relate to derivative financial instruments and if held to maturity, which is the Company's intention, the value of these will be zero. Excluding derivative financial instruments, the Company had net assets of £69 million as at September 2019.

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

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.

Notes to the condensed interim financial statements

2. Business combination

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

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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.

4. Net financial expense

	Period ended
	30 September 2019
	£000
	(unaudited)
a) Financing cost before fair value losses	
Financial income:	
Intercompany	<u>21,579</u>
Financial expenses:	
Interest payable on loans	(15,952)
Interest payable on swaps	(3,401)
Indexation on index-linked bonds	(1,977)
Indexation on index-linked swap	<u>(223)</u>
	(21,553)
Net financial income before fair value adjustments	<u>26</u>
	Period ended
	30 September 2019
	£000
	(unaudited)
b) Fair value losses on derivative financial instruments	
Fair value losses on derivative financial instruments before indexation	<u>(695)</u>

Notes to the condensed interim financial statements

5. Taxation	Period ended 30 September 2019 £000 (unaudited)
Current tax	
Current year	(5)
Deferred tax	
Current year	118
Taxation credit	<u>113</u>
Loss before taxation	(669)
Loss before tax multiplied by the corporation tax in the UK of 19%	127
Effect of:	
Tax rate changes	<u>(14)</u>
Total taxation credit	<u>113</u>
Deferred tax asset	
At 1 August 2019	23,146
Credit to income statement	<u>118</u>
At 30 September 2019	<u>23,264</u>
Deferred tax comprises:	
Derivative financial instruments	<u>23,264</u>
6. Share capital	30 September 2019 £ (unaudited)
Authorised	
1 ordinary share of £1	1
50,000 ordinary shares of £1 each (£0.25)	<u>50,000</u>
	<u>50,001</u>
Allotted and fully paid	
1 ordinary share of £1	3,032,680
1 ordinary share of £1 (£0.25)	<u>1</u>
	<u>3,032,681</u>
Allotted and partly paid	
49,999 ordinary shares of £1 each (£0.25)	<u>12,500</u>
	<u>3,045,181</u>

Notes to the condensed interim financial statements

7. Analysis and reconciliation of net funds

a) Net funds at the balance sheet date may be analysed as:	30 September 2019 £000 (unaudited)
Cash and cash equivalents	45
Other financial assets: group receivables	<u>2,646,178</u>
	2,646,223
Net accrued interest	(26,361)
Debt due after one year	(2,544,880)
Debt due within one year	<u>(29,728)</u>
	(2,600,969)
Net funds	<u>45,254</u>

b) The movement in net funds during the period may be summarised as:	Period ended 30 September 2019 £000 (unaudited)
Net funds at start of period	-
Increase in net cash	45
Increase in receivables	2,646,178
Increase in debt	<u>(2,572,753)</u>
Increase in net funds arising from cash flows	73,470
Amortisation of bond issue premium	122
Indexation of index-linked debt	(1,977)
Movement in accrued interest	<u>(26,361)</u>
Movement in net funds during the period	45,254
Net funds at the end of the period	<u>45,254</u>

8. 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 2019. There have been no changes in the risk management department or in any risk management policies since the Group's year-end. In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Company are categorised into different levels;

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All of the Company's treasury derivatives are categorised at Level 2 and as at 30 September 2019 were valued as follows:

- Assets: treasury derivatives £107.4m; and
- Liabilities: treasury derivatives £289.4m.

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

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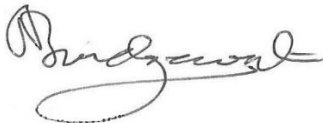
Dŵr Cymru (Financing) UK plc

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: Peter Bridgewater