UK Registered № 11949988

Dŵr Cymru (Financing) UK plc

Annual report and financial statements
for the year ended 31 March 2023

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

Contents Page

Strategic report

The Directors present the Strategic Report of Dŵr Cymru (Financing) UK plc for the year ended 31 March 2023.

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 2023</u>
For the year to 31 March 2023 the Company reported a gain before taxation of £240,231,000 (2022: £91,988,000 loss), principally reflecting changes in the fair value of derivative financial instruments (2023: £232,144,000 gain, 2022: £100,278,000 loss).

As at 31 March 2023 net assets stood at £182,353,000 (2022: net liabilities £24,047,000); these represent issued share capital and share premium of £3,083,000 (2022: £3,083,000), a capital contribution reserve of £57,433,000 (2022: £57,433,000) and a retained surplus of £121,837,000 (2021: retained deficit of £84,563,000) 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+

* Stable outlook, ** Negative outlook, *** The Class A bonds are guaranteed by Assured Guaranty UK Limited (A1/AA/NR) and revert to the higher of the guarantor's ratings or underlying bond rating

Strategic report (continued)

Performance to 31 March 2023 (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, as at the date of this report, remain undrawn. During May 2023, the Company renewed one revolving credit facility with BNPP to 30 November 2024 for the amount of £60m.

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 on 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 at Glas Cymru Annual Report and Accounts 2022-2023).

The Company also monitors its derivatives portfolio closely to ensure that hedges operate as intended. The most recent review, conducted as at 31 March 2023, identified that a £192,000,000 floating-to-fixed rate swap was not an exact match for any of the Company's floating rate instruments but that it provides an effective economic hedge against the Group's floating rate loans from the European Investment Bank ('EIB'), with the hedge, and the Company's portion of EIB loan, being on-lent to DCC where the remaining EIB loans sit.

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 asset position as at 31 March 2023. The Directors do not foresee any adverse year-on-year movements in the fair value of derivative financial instruments 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 2023, 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 Group's S172 statement is available on pages 71 to 73 of the Glas Cymru Annual Report and Accounts 2022-2023.

The Directors are mindful of the purpose of the Company and its intrinsic link to DCC's long-term vision and are 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.

During FY 23 the Company held meetings with bond investors via video conference and in person, including July 2022 where the Company convened the annual Investors Meeting in person. Members of the Board and Executive Team attend this meeting and the Treasury team is in regular contact with investors and credit rating agencies throughout the year. All formal communications with investors are approved by the Board, and investors receive a six-monthly Investor Report which they are welcome to follow up on with the Treasury team.

Strategic report (continued)

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

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

While the Company's activities mean that it has a limited range of stakeholders, on page 70 of the Strategic Report in the Glas Cymru 2022-23 Annual Report and Accounts, a copy of which is available to view at Glas Cymru Annual Report and Accounts 2022-2023, sets out the board decision making in relation to our stakeholders.

By order of the Board.

N Foreman
Company Secretary

28 July 2023

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 2023 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	(resigned on 30 September 2022)
M Jones	(appointed on 14 November 2022)

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 2023 (year to 31 March 2022: none).

Political donations
The Company made no political donations and incurred no political expenditure during the year to 31 March 2023 (year to 31 March 2022: 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 2023 are set out within the Strategic Report on pages 1 to 3.

Financial risk management
Details of the Company’s financial risk management, in respect to credit risk, liquidity risk and hedging exposure is 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.

Directors’ report (continued)

Independent Auditor FY24

Following a re-tender of external audit services completed during 2023, a decision to appoint Deloitte LLP as Auditor to the Glas Cymru Group was approved by the Glas Cymru Board and in accordance with Section 489 of the Companies Act 2006, a resolution proposing the appointment of Deloitte LLP as Auditor of the Glas Cymru Group was put to and approved by the Members at the AGM held in July 2023. Deloitte LLP will act as Auditor of the financial statements for the year ending 31 March 2024 and be subject to annual re-appointment by the Members at the AGM in respect of each subsequent financial year.

By order of the Board.

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

28 July 2023

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.

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

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

1 Our opinion is unmodified

We have audited the financial statements of Dŵr Cymru (Financing) UK PLC ("the Company") for the year ended 31 March 2023 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 the Company's affairs as at 31 March 2023 and of its profit 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.

Additional opinion in relation to International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("EU-adopted IFRS")

As explained in note 1 to the Company financial statements, the Company, in addition to complying with its legal obligation to apply UK-adopted international accounting standards, has also applied EU-adopted IFRS.

In our opinion the Company financial statements have been properly prepared in accordance with EU-adopted IFRS.

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.

2 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
(£4.4bn; 2022: £4.2bn)
Refer to page 16 (accounting policy) and page 22 (financial disclosure)

The risk
Low risk, high value
The carrying amount of the loans to group undertakings balance represents 91.7% (2022: 89.7%) of the Company's total assets. We do not consider the recoverable amount of these receivables to be at a high risk of significant misstatement 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 has 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 consider whether it is 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.

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

Materiality for the financial statements as a whole was set at £35m (2022: £32m), determined with reference to a benchmark of total assets (of which it represents 0.7% (2022: 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% (2022: 75%) of materiality for the financial statements as a whole, which equates to £26.2m (2022: £24.0m). 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 £1.75m (2022: £1.60m), 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.

4 Going concern

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

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

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

Our conclusions based on this work:

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

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

5 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.

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

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 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, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further

removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

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

6 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.

We have nothing to report on the other information in the Annual Report (continued)

Strategic report and directors’ report

Based solely on our work on the other information:

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

7 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.

8 Respective responsibilities

Directors’ responsibilities

As explained more fully in their statement set out on page 6, 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.

9 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 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

28 July 2023

Income statement for the year ended 31 March 2023

Continuing activities	Note	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Financial income	3	**354,700**	166,999
Financial expenses	3	**(346,613)**	(158,709)
Fair value gain/(losses) on derivative financial instruments	3	**232,144**	(100,278)
Operating profit/(loss)		**240,231**	(91,988)
Profit/(Loss) before taxation		**240,231**	(91,988)
Taxation	5	**(33,831)**	26,248
Profit/(Loss) for the year		**206,400**	(65,740)

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.

-

Balance sheet as at 31 March 2023

	Note	**31 March 2023 £000**	31 March 2022 £000
Assets			
Non-current assets			
Deferred tax	6	**-**	32,767
Other financial assets:			
- loans to group undertakings	7	**4,421,090**	4,148,899
- derivative financial instruments	11	**344,537**	384,538
		4,765,627	4,566,204
Current assets			
Cash and cash equivalents	8	**851**	719
Other financial assets:			
- loans to group undertakings	7	**20,000**	20,000
- derivative financial instruments	11	**22,885**	60,084
		43,736	80,803
Total assets		**4,809,363**	4,647,007
Liabilities			
Current liabilities			
Trade and other payables	9	**(1,245)**	(732)
Other financial liabilities:			
- borrowings	10	**(20,000)**	(20,000)
- derivative financial instruments	11	**(19,213)**	(17,243)
		(40,458)	(37,975)
Net current assets		**6,091**	42,828
Non-current liabilities			
Deferred tax	6	**(1,016)**	-
Other financial liabilities:			
- borrowings	10	**(3,869,397)**	(3,792,978)
- derivative financial instruments	11	**(716,139)**	(840,101)
		(4,586,552)	(4,633,079)
Total liabilities		**(4,627,010)**	(4,671,054)
Net assets/(liabilities)		**182,353**	(24,047)
Equity			
Share capital	13	**50**	50
Share premium	13	**3,033**	3,033
Capital contribution reserve		**57,433**	57,433
Retained earnings		**121,837**	(84,563)
Total equity		**182,353**	(24,047)

The financial statements on pages 11 to 30 were approved by the Board of Directors on 28 July 2023 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 2023

	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
At 1 April 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)**
Profit for the year	**-**	**-**	**-**	**206,400**	**206,400**
At 31 March 2023	**50**	**3,033**	**57,433**	**121,837**	**182,353**

Cash flow statement for the year ended 31 March 2023

	Note	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Cash flow from operating activities			
Interest received		**159,341**	156,560
Interest paid		**(159,209)**	(156,107)
Net cash flow from operating activities		**132**	453
Cash flow from financing activities			
Loan issued to group undertakings		**-**	(297,942)
Loan repaid by group undertaking		**20,000**	24,545
Bond issue		**-**	300,000
Bond issue costs		**-**	(2,058)
Term loans repaid		**(20,000)**	(24,545)
Net cash flow from financing activities		**-**	-
Increase in cash and cash equivalents	14b	**132**	453
Cash and cash equivalents at 1 April		**719**	266
Cash and cash equivalents at 31 March	8	**851**	719

Notes to the financial statements

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 Bourse de Luxembourg, an EU-regulated market; 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"). Additionally, as a UK-incorporated companies with securities that are traded elsewhere in the EU, we also confirm that these accounts have been prepared in accordance with EU-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 19.

Accounting policies for the year ended 31 March 2023
The principal accounting policies adopted in the preparation of these financial statements are set out below.

Going concern
The financial statements have been prepared on 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 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.

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 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. The assessment has been completed on a Group basis as the Company is dependent on the ability of Glas Cymru Holdings Cyfyngedig to transfer cash in the process of servicing the on-lent debt. 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. Mitigating actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; and an extension of revolving credit facilities. Additionally, we have considered the strength of the group's financial position, to evaluate whether they can continue to transfer funds to support the on-lent debt. Finally, the Directors have also assessed the potential impacts resulting from the cost-of-living crisis and interest rates presently affecting the UK, and although they generate a negative on our financials, none of these factors pose a significant concern to disclose in relation to 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 our financial metrics, they remain within the investment grade credit rating and in compliance with our borrowing covenants.

Going concern (continued)

As stated previously, this assessment is dependent on the ability of Glas Cymru Holdings Cyfyngedig to transfer cash in the process of servicing the on-lent debt. The group is in a strong cash position and indicated its intention to continue to make available such funds as they are needed in relation to the debt.

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 2022:

Amendments

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018–2020

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

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 Disclosure of Accounting Policies.
- IAS 8 Definition of Accounting Estimates.
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- IFRS 17 Insurance Contracts.

During the financial year, we reviewed our exposure to IFRS 17 and concluded that we do not anticipate any impact arising from the new standard. The Directors anticipate that the adoption of this Standard and these Amendments in future periods will have no material impact on the financial statements of the 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.

Financing income and expenses

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

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.

We have reviewed our loans to group undertakings for an excepted credit loss as per IFRS 9. After concluding a low credit risk of these loans, we were able to use a simplified calculation to conclude that any expected credit loss is immaterial for the 2023 financial statements (2022: Immaterial).

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.

Notes to the financial statements (continued)

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 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. An independent valuation model 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 2023, 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% (2022: 25%).

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 comprises of interest, indexation and index-linked swaps receivable on intercompany loans recognised in profit or loss using the effective interest method.

<u>Financing risk management objectives and policies</u>
Treasury activities are managed at Group level within a formal set of treasury policies and objectives, which are reviewed at least annually and approved by the Board. The policy specifically prohibits any transactions of a speculative nature and the use of complex financial instruments. Certain detailed policies for managing interest rate, currency and inflation risk and that for managing liquidity risk are approved by the Board and may only be changed with the consent of Dŵr Cymru Cyfyngedig's security trustee (the "Security Trustee"). The risk is further mitigated by limiting exposure to any one counterparty. We use financial instruments, which principally include listed bonds, finance leases, bank loan facilities and derivatives, to raise finance and manage risk from our operations.

Credit risk

The Company has a prudent policy for investing cash and short-term bank deposits, set by the bond documentation within the Common Terms Agreement. Deposits can be placed with the Company's Account Bank for overnight risk only. Deposits of up to one year can be placed with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively, or with the Account Bank as instant access deposits. Deposits of over one year should be placed with counterparties that carry a minimum rating of AA-/Aa3/AA-. In practice, the Company has adopted a more prudent approach to cash management and 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 2023 amounted to £3,889m (2022: £3,813m). Cash and cash equivalents in the Company of £0.9m (2022: £0.7m) 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 2023, the ratings attaching to the on-lent financial instruments were as follows:

Carrying value £000		Moody's	Credit rating S&P	Fitch
Class A bonds	1,387,830	A1	AA	A
Class B bonds	1,926,014	A3	A-	A
Class C bonds	496,802	Baa2	BBB	BBB+
Term loans	78,750	-	-	-
	3,889,396			

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 (2022: 100%). For this purpose, floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. Cash flow risk is minimised as a consequence of the regulatory framework, under which revenues and the regulatory asset value are also index-linked. Subject to market constraints and Board approval, the group therefore may seek to raise new debt through index-linked instruments or to enter into appropriate hedging transactions.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated at group level taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £3,889m as at 31 March 2023, (2022: £3,813m), none related to floating rate debt when taking into consideration the Company's derivative financial instruments. 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 £3,889m (2021: £3,813m) can fall due in any 24-month period.

Liquidity risk

The Company maintains committed banking facilities in order to provide flexibility in the management of the group's liquidity. Under the Common Terms Agreement which governs obligations to bondholders and other financial creditors, the WBS group is required to have cash available to fund operations for a duration of 12 months.

As at 31 March 2023, the group had committed undrawn borrowing facilities of £200m (2022: £200m) and net cash and cash equivalents of £379m (2022: £473m). These undrawn facilities are currently in the process of being renewed. There is also a £10m overdraft facility renewable on an annual basis.

Liquidity risk (continued)
As at 31 March 2023 there was also a special liquidity facility of £135m (2022: £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 2023 gearing was 58% (2022: 58%).

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

Intercompany loan to group undertakings expected credit losses

The Company approached its impairment assessment of intercompany loan to group undertakings via historical and forward-looking analyses, using both qualitative and quantitative information. A core focus of the forward-looking analysis was cash flow forecasts for the next two years for the Group, to 31 March 2025. This is aligned with the end of Dŵr Cymru Cyfyngedig's (DCC, the group's operating company and principally the main recipient of the Company's issued loans) current period of regulated revenues during which there is certainty of billed turnover values. In addition, longer-term financial resilience is considered at group level – taking into account both the Company and DCC - through management's long-term viability analysis over a seven-year period to 31 March 2030, including an assessment of the ability of all entities to service their debt requirements as they fall due. This is available in Glas Cymru Annual Report and Accounts, page 100. This incorporates a range of scenarios based on the principal risks facing the group as identified by the board of directors. One of these scenarios represents a "severely adverse" deviation from the group's business plan, combining the impact of principal risks crystallising simultaneously in an unfavourable economic environment. Based on the outputs of this exercise, management expects DCC to have sufficient liquidity throughout the periods in question, under a range of scenarios, to meet all its working capital and other obligations, including repayment of the intercompany loan. Specifically, management does not expect that any plausible "severely adverse" changes in economic and business conditions during the remaining years of the intercompany loan would compromise DCC's repayment ability.

The above assessments have led management to conclude that the Company's intercompany loan is of low credit risk and this is supported by high-quality credit (ratings of A3, A- and A from Moody's, S&P and Fitch). As such, the loan falls within 'stage 1' of IFRS 9's impairment model and 12-month expected credit losses can be calculated. These were determined to be immaterial and therefore no adjustment to carrying values nor additional disclosures were considered necessary.

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 estimate: derivative financial instruments (continued)

All of the Company's derivatives are categorised at Level 2 and as at 31 March 2023 were valued as follows:
- Assets: treasury derivatives £367.4m (2022: £444.6m)
- Liabilities: treasury derivatives £735.3m (2022: £857.3m)

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 an independent 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 £7.8m (2022: £11.9m).

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

	2023	2022
	£000	£000
Financial income:		
- intercompany	**354,700**	166,999
	354,700	166,999
Financial expenses:		
- interest payable	**(346,613)**	(158,709)
Fair value gains/(losses) on derivative financial instruments before indexation	**232,144**	(100,278)
Net financial income	**240,231**	(91,988)

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 £61,550 (2022: £30,800) have been borne by a fellow Group company.

5. Taxation

	2023 £000	2022 £000
Corporation tax		
- group relief received	**(48)**	(48)
Deferred tax		
- current period (charge)/credit	**(25,675)**	26,296
- prior period (charge)/credit	**(8,108)**	-
Taxation (charge)/credit	**(33,831)**	26,248

Total tax reconciliation	2023 £000	2022 £000
Profit/(Loss) before taxation	**240,231**	(91,988)
Profit/(Loss) before taxation multiplied by the corporation tax rate in the UK of 19% (2022: 19%)	**(45,644)**	17,478
Effect of:		
Release of fair value adjustments	**1,490**	1,526
Fair value movements on derivatives not deductible for tax	**18,432**	(620)
Effect of tax rate changes on closing deferred tax (from 19% to 25%)	**-**	7,864
Prior years	**(8,109)**	-
Taxation (charge)/credit	**(33,831)**	26,248

Corporation tax reconciliation	2023 £000	2022 £000
Profit/(Loss) before taxation	**240,231**	(91,988)
Profit/(Loss) before taxation multiplied by the corporation tax rate in the UK of 19%	**45,644**	(17,478)
Effect of:		
Release of fair value adjustments – non-taxable/(deductible)	**(1,490)**	(1,526)
Fair value movements on derivatives – not deductible for tax	**(44,106)**	19,052
Taxation charge	**48**	48

When the loans and bonds were novated to the company from Dŵr Cymru (Financing) Limited on 1 August 2019, adjustments were made to record them at their fair value in accordance with IFRS 9. The subsequent release of these fair value adjustments is not subject to corporation tax.

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

6. Deferred tax asset

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2022: 25%).

The movement in deferred tax is as shown below:

	2022	2021
	£000	£000
Asset at 1 April	**32,767**	6,471
(Charge)/Credit to income statement	**(33,783)**	26,296
(Liability)/Asset At 31 March	**(1,016)**	32,767
Deferred tax comprises:		
Derivative financial instruments	**(1,016)**	32,767

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 on 1 August 2019. 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 net deferred tax liability recognised in these financial statements comprises taxable and deductible temporary differences arising from fair value movements on the interest rate swaps that the Company took out in February 2020 and April 2021. Deferred tax assets (deductible temporary differences) included within the net deferred tax liability will be recovered in future periods against the reversal of deferred tax liabilities (taxable temporary differences) or when the fair value liabilities of the related swaps on the balance sheet are released to the income statement following changes to market interest rates and inflation, or are cash settled. Where liabilities are cash settled by making interest payments under the swaps, the associated cost is recovered from Dŵr Cymru Cyfyngedig under the intercompany loan agreement between the two companies; hence there will be future taxable profits to enable the deferred tax asset to be recovered.

As at 31 March 2023, deferred tax was provided at the rate of 25% (2022: 25%).

7. Other financial assets – loans to group undertakings

	2023	2022
	£000	£000
Non-current		
Loans to group undertakings	**4,421,090**	4,148,899
Current		
Loans to group undertakings	**20,000**	20,000
Total other financial assets	**4,441,090**	4,168,899

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

	2023	2022
	£000	£000
Cash at bank and in hand	**851**	719
Cash and cash equivalents	**851**	719

The effective interest rate on short-term deposits as at 31 March 2023 was 1.00% (2022: 0.01%) and these deposits had an average maturity of one day (2022: one day).

Notes to the financial statements (continued)

9. Trade and other payables

	2023	2022
	£000	£000
Other payables	**38**	114
Accrued interest payable	**1,207**	618
Trade and other payables	**1,245**	732

10. Other financial liabilities - borrowings

	Notes	2023	2022
		£000	£000
Current			
European Investment Bank loans	**12**	**20,000**	20,000
		20,000	20,000
Non-current			
Bonds	**11**	**3,810,647**	3,714,228
European Investment Bank loans	**11**	**58,750**	78,750
		3,869,397	3,792,978
Total		**3,889,397**	3,812,978

11. Other financial liabilities - derivative financial instruments

The principal terms of these borrowings as at 31 March 2023 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	**423,651**
Class A4	Index-linked	3.5% + RPI	31 March 2030	265,000	**701,374**
Class A5	Index-linked	3.5% + RPI (5% collar)	31 March 2031	85,000	**222,893**
Class A6	Fixed	4.5%	31 March 2057	100,000	**154,052**
Class B3	Index-linked	4.4% + RPI	31 March 2026	128,600	**300,953**
Class B4	Index-linked	4.4% + RPI (5% collar)	31 March 2027	75,000	**176,026**
Class B5	Index-linked	1.4% + RPI	31 March 2057	50,000	**155,412**
Class B6	Index-linked	1.9% + RPI	31 March 2048	260,000	**560,403**
Class B7	Fixed	2.5%	31 March 2036	300,000	**322,090**
Class B8	Fixed	1.4%	31 March 2033	300,000	**296,807**
Class C3	Fixed	1.6%	31 March 2026	200,000	**199,299**
Class C4	Fixed	2.4%	31 March 2034	300,000	**297,519**
Bond discount				-	**90**
				2,413,600	**3,810,569**
European Investment Bank loans (amortising)					
24642 tranche 1	Floating	3-month SONIA + 31 bps	15 December 2023	2,500	**2,500**
24642 tranche 2	Floating	6 month SONIA + 45 bps	15 April 2025	22,500	**22,500**
26030 tranche 1	Floating	3 month SONIA + 82 bps	15 September 2026	8,800	**8,800**
26030 tranche 2	Floating	6 month SONIA +76 bps	15 December 2028	45,000	**45,000**
				78,800	**78,800**
Total				2,492,350	**3,889,397**

A security package was granted by Dŵr Cymru Cyfyngedig (DCC), as part of the Company's bond programme for the benefit of holders of senior bonds and other senior financial creditors.

The obligations of DCC are guaranteed by the Company, Glas Cymru (Securities) Cyfyngedig and Dŵr Cymru (Holdings) Limited. The main elements of the security package are:

i) a first fixed and floating security over all of DCC's assets and undertakings, to the extent permitted by the Water Industry Act, other applicable law and its licence; and
ii) fixed and floating security given by the guarantors referred to above which are accrued on each of the Company's assets including, in the case of Dŵr Cymru (Holdings) Limited, a first fixed charge over its shares in DCC.

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.

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

2023	**Fair values**	
	Assets	**Liabilities**
	£000	**£000**
Current		
Index-linked swaps	**14,353**	**(10,682)**
Interest rate swaps	**3,260**	**(5,271)**
Interest rate swaps - intercompany	**5,272**	**(3,260)**
	22,885	**(19,213)**
Non-current		
Index-linked swaps	**307,354**	**(678,955)**
Interest rate swaps	**6,519**	**(30,664)**
Interest rate swaps - intercompany	**30,664**	**(6,519)**
	344,537	**(716,139)**
Derivative financial instruments	**367,422**	**(735,352)**

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)

The notional values of the swaps are: interest rate swaps - £192m (2022: £192m); index-linked swaps - £1,250m (2022: £1,250m).

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 (2022: £1,250m).

The principal terms are as follows:

Indexed notional amount:	£1,595m (2022: £1,407m)
Swap maturity:	15 years (2022: 17 years)
Interest rate:	(0.16)% (indexed by RPI) (2022: (0.16)% indexed by RPI)

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. There have been no changes to the risk management department or in any risk management policies during the year.

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

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).

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

All of the Company's derivatives are categorised at Level 2 and as at 31 March 2023 were valued as follows:
- Assets: treasury derivatives £367.4m (2022: £444.6m)
- Liabilities: treasury derivatives £735.3m (2022: £857.3m)

Treasury derivatives relate to interest rate swap contracts and are recorded on the balance sheet at fair value. These have all been assessed as Level 2.

Level 2 debt instruments are valued using a discounted cash flow approach, which discount the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

12. Financial risk management

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

a) Interest rate risk

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

	2023	2022
Assets		
Cash and cash equivalents	1.0%	0.7%
Amounts owed by group undertakings	4.5%	3.1%
Liabilities		
Bonds	4.5%	3.1%
European Investment Bank loans	3.7%	1.0%

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.

b) Liquidity risk

2023	**< 1 year £000**	**1–2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Assets					
Cash and cash equivalents	**851**	-	-	-	**851**
Other financial assets:					
- loans to group undertakings	**132,156**	**127,300**	**1,557,623**	**3,758,465**	**5,575,544**
	133,007	**127,300**	**1,557,623**	**3,758,465**	**5,576,395**
Liabilities					
Bonds	**-**	**-**	**1,099,789**	**2,710,919**	**3,810,708**
European Investment Bank loans	**20,000**	**17,500**	**33,750**	**7,500**	**78,750**
Future interest payable	**112,799**	**111,800**	**298,800**	**660,900**	**1,184,299**
	132,799	**129,300**	**1,432,339**	**3,379,319**	**5,073,757**
Derivatives					
Financial derivatives – swaps	**-**	**-**	**149,807**	**218,123**	**367,930**
	-	**-**	**149,807**	**218,123**	**367,930**

Bond liabilities and related loans to group undertakings reflect indexed cash flows for index-linked instruments based on a post 31 March 2023 RPI inflation assumption of 7.8% for a year, gradually reducing to 3% by year three.

Notes to the financial statements (continued)

12. Financial risk management (continued)

b) Liquidity risk (continued)

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	1,008,300	3,669,578	4,934,178
Derivatives					
Financial derivatives – swaps	-	-	-	412,722	412,722
	-	-	-	412,722	412,722

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.

2023	**Book value £000**	**Fair value £000**
Fair value of financial assets		
- cash and cash equivalents	**851**	**851**
- loans to group undertakings (note 7)	**4,441,090**	**3,303,199**
	4,441,941	**3,304,050**
Fair value of financial liabilities		
- European Investment Bank loans (note 10)	**78,750**	**78,750**
- bonds (note 10)	**3,810,647**	**2,973,748**
- other payables (note 9)	**1,245**	**1,245**
	3,890,642	**3,053,743**

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)

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:

	2023	2022
	£000	£000
Expiring in one year		
Revolving credit facilities	**200,000**	200,000
	200,000	200,000

These undrawn facilities are currently in the process of being renewed to extend into 2024. There is also a £10m overdraft facility renewable on an annual basis.

As at 31 March 2023 there was also a special liquidity facility of £135 million (2022: £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.

e) Capital risk management

Gearing ratios (Group – Glas Cymru Holdings Cyfyngedig)

	2023	2022
	£m	£m
Total borrowings	**(4,186)**	(4,066)
Less: cash and cash equivalents	**379**	515
Net debt	**(3,807)**	(3,551)
Regulatory capital value (RCV)	**7,161**	6,460
Total capital	**3,354**	2,909
Less: unamortised bond costs and bond swap indexation	**(357)**	(171)
Total capital per bond covenants	**2,997**	2,738
Gearing ratio	**58%**	58%

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

	2023	2022
	£	£
Authorised		
1 ordinary share of £1	**1**	1
50,000 ordinary shares of £1 each	**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 paid)	**12,500**	49,999
	3,045,180	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.

The 'Allotted and partly paid' balance has been amended in 2023 to reflect the price paid per share. However, the comparative has not been restated as the change is not material.

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:

	2023	2022
	£000	£000
Cash and cash equivalents	851	719
Other financial assets:		
- group receivables	4,441,090	4,168,899
	4,441,941	4,169,618
Net accrued interest	(1,207)	(618)
Debt due after one year	(3,869,397)	(3,792,978)
Debt due within one year	(20,000)	(20,000)
	(3,890,604)	(3,813,596)
Net funds	551,337	356,022

b) The reconciliation below between the opening and closing balances for financing activities evaluates changes in assets and liabilities including changes arising from both cash and non-cash items:

2023	Loans to group undertakings	Borrowings	Derivative financial instruments
	£000	£000	£000
Financing activities at start of period	4,168,899	(3,813,596)	(412,722)
Cash flows			
Payment/repayment of principal loans	(20,000)	20,000	-
Derivative settlements	(36,274)	-	36,274
Interest paid	-	98,424	-
Interest received	(98,556)	-	-
Movement arising from cash flows	(154,830)	118,424	36,274
Non-cash changes			
Interest accrued/fees amortised	41,034	(33,071)	-
Indexation	384,984	(161,357)	(223,626)
Unamortised costs	1,004	(1,004)	
Fair value changes	-	-	232,144
Movement arising from non-cash flows	427,022	(195,432)	8,518
Financing activities at the end of the period	4,441,090	(3,890,604)	(367,930)

Notes to the financial statements (continued)

2022	Loans to group undertakings	Borrowings	Derivative financial instruments
	£000	£000	£000
Net funds at start of period	3,791,617	(3,813,596)	(412,722)
Cash flows			
Payment/repayment of principal loans	(24,545)	24,545	-
Derivative settlements	(31,460)	-	31,460
New bond issuance	297,942	(297,942)	
Interest paid	-	93,269	-
Interest received	(93,722)	-	-
Financing activities arising from cash flows	148,215	(180,127)	31,460
Non-cash changes			
Interest accrued/fees amortised	34,865	(28,193)	-
Indexation	194,361	(67,011)	(125,014)
Unamortised costs	561	(561)	-
Fair value changes	-	-	(100,278)
Movement arising from non-cash flows	229,787	(95,765)	(225,292)
Financing activities at the end of the period	4,169,618	(3,813,596)	(412,722)

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 minimal qualifying services relating specifically to Dŵr Cymru (Financing) UK plc that are not also related to the wider Group. 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 £354,700,000 during the year (2022: £166,999,000). As at 31 March 2023 the balance outstanding on the intercompany loan to DCC stood at £4,441,090,000 (2022: £4,168,230,000). Other outstanding balances as at 31 March 2023 were accrued interest on the loan of £1,207,000 (2022: £619,000), and the closing fair value of the intercompany interest rate swap of £35,935,000 (2021: £58,267,000).

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 2023 a balance of £50,000 was owed by the parent company, Dŵr Cymru (Holdings) Cyfyngedig (2022: £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.

28 July 2023

Director:

PMDavis

Name: P M Davis