Dŵr Cymru (Financing) UK plc

Interim report and accounts
for the six months ended 30 September 2023

Contents

Interim management report

The Directors have pleasure in presenting their management report, together with the financial statements for the six months to 30 September 2023, on pages 3 to 11.

Principal activities
The principal activity of Dŵr Cymru (Financing) UK plc ('the Company') is that of an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig (DCC).

Results and dividends
The profit before taxation amounted to £100,933,000 (six months to 30 September 2022: profit of £233,444,000; year to 31 March 2023: profit of £240,231,000). No dividend was declared or paid during the period (six months to 30 September 2022 and year to 31 March 2023: none).

Business review
During the period the Company continued its activities as an investment company providing long-term funding for DCC, the only trading subsidiary in the Whole Business Securitisation of the Glas Cymru Holdings Cyfyngedig Group ('the Group').

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).

As at 30 September 2023 net assets stood at £267,804,000 (31 March 2023: net assets £182,353,000); these represent issued share capital and share premium of £3,083,000 (2023: £3,083,000), a capital contribution reserve of £57,433,000 (2023: £57,433,000) and a retained surplus of £207,288,000 (2023: retained surplus of £121,837,000) which is driven by the changes in fair value of derivatives.

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 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 the period, the Company renewed one of the Company's revolving credit facilities amounting to £60m to 30 November 2024.

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of the Glas Cymru Group, which include those of the Company, are disclosed within the Group's annual report for the year ended 31 March 2023. Management does not consider that these have changed materially during the first six months of the year, nor that there will be any significant change between now and the end of the year. The Annual Report and Accounts are published on the Group's website, www.dwrcymru.com, and are available from the Company Secretary on request. The key risks faced by the Group are as follows: public concerns about environmental issues; business continuity; climate change impacts and transition risks; health and safety major incident; information security, cyber risk and risk of IT system loss; performance and cost; loss of customer trust; loss of key talent, capability and competence; and macroeconomic risk that includes the cost-of-living crises and inflation and access to funding. Page 10 of this report refers to risk management of treasury activities within the company.

Key Performance Indicators
The company is part of a group controlled by Glas Cymru Holdings Cyfyngedig. The directors of Dŵr Cymru (Financing) UK plc 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 Glas Cymru Holdings Cyfyngedig ARA).

Interim income statement

	Note	Six months ended 30 September 2023 (unaudited) £000	Six months ended 30 September 2022 (unaudited) £000	Year ended 31 March 2023 (audited) £000
Continuing activities				
- Financial income	3a	**137,900**	161,736	354,700
- Financial expenses	3a	**(137,160)**	(160,801)	(346,613)
- Fair value gains on derivative financial instruments	3b	**100,193**	232,509	232,144
Profit before taxation		**100,933**	233,444	240,231
Taxation (charge)	4	**(15,482)**	(32,879)	(33,831)
Profit for the period		**85,451**	200,565	206,400

Underlying profit			
Profit before taxation per income statement	**100,933**	233,444	240,231
Add back:			
- Effect of fair value (gains) on derivative financial instruments	**(100,193)**	(232,509)	(232,144)
Profit before taxation and fair value adjustments	**740**	935	8,087

The Company has no other recognised gains or losses in the periods presented and accordingly a Statement of Comprehensive Income has not been presented.

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

Interim statement of changes in equity

	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings £000	Six months ended 30 September 2023 (unaudited) Total £000	Six months ended 30 September 2022 (unaudited) Total £000	Year Ended 31 March 2023 (audited) Total £000
Surplus/(deficit) at start of period	50	3,033	57,433	121,837	**182,353**	(24,047)	(24,047)
Profit for the period	-	-	-	85,451	**85,451**	200,565	206,400
Surplus at end of period	**50**	**3,033**	**57,433**	**207,288**	**267,804**	176,518	182,353

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

Interim balance sheet

	At 30 September 2023 (unaudited)	At 30 September 2022 (unaudited) restated	At 31 March 2023 (audited) restated
Assets			
Non-current assets	**£000**	**£000**	**£000**
Other financial assets:			
- loans to group undertakings	**4,523,625**	4,276,266	4,421,090
- derivative financial instruments	**13,957**	13,076	26,156
	4,537,582	4,289,342	4,447,246
Current assets			
Cash and cash equivalents	**909**	693	851
Other financial assets:			
- loans to group undertakings	**12,500**	12,500	20,000
- other receivables	**365**	-	-
	13,774	13,193	20,851
Total assets	**4,551,356**	4,302,535	4,468,097
Current liabilities			
Trade and other payables	**(25,104)**	(24,835)	(1,245)
Other financial liabilities:			
- borrowings	**(12,500)**	(12,500)	(20,000)
	(37,604)	(37,335)	(21,245)
Net current (liabilities)	**(23,830)**	(24,142)	(394)
Non-current liabilities			
Other financial liabilities:			
- Deferred tax	**(16,464)**	(87)	(1,016)
- borrowings	**(3,876,036)**	(3,801,265)	(3,869,397)
- derivative financial instruments	**(353,448)**	(287,330)	(394,086)
	(4,245,948)	(4,088,682)	(4,264,499)
Total liabilities	**(4,283,552)**	(4,126,017)	(4,285,744)
Net assets	**267,804**	176,518	182,353
Equity			
Share capital	**50**	50	50
Share premium	**3,033**	3,033	3,033
Capital contribution reserve	**57,433**	57,433	57,433
Retained earnings	**207,288**	116,002	121,837
Total equity	**267,804**	176,518	182,353

The interim financial statements on pages 3 to 6 were approved by the Board of Directors on 14 December 2023 and were signed on its behalf by:

Mike Davis
Director
The notes on pages 7 to 11 are an integral part of these financial statements.

The comparators for derivative financial instruments have been restated. There is no impact on overall net assets. More information is available in note 1 to these financial statements.

Interim statement of cash flows

	Six months ended 30 September 2023 (unaudited) £000	Six months ended 30 September 2022 (unaudited) £000	Year ended 31 March 2023 (audited) £000
Cash flows from operating activities			
Interest received	**30,897**	29,425	159,341
Interest paid	**30,839**	(29,451)	(159,209)
Net cash flow from operating activities	**58**	(26)	132
Cash flows from financing activities			
Loan repaid by group undertaking	**12,500**	12,500	20,000
Term loans repaid	**(12,500)**	(12,500)	(20,000)
Net cash flow from financing activities	**-**	-	-
Increase/(decrease) in cash and cash equivalents	**58**	(26)	132
Cash and cash equivalents at start of period	**851**	719	719
Cash and cash equivalents at end of period	**909**	693	851

Notes to the condensed interim financial statements

1. Basis of preparation

Dŵr Cymru (Financing) UK plc ('the Company') is a public limited company incorporated, domiciled and registered in 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.

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's last annual financial statements for the year ended 31 March 2023. They do not include all of the information required for a complete set of IFRS financial statements, however selected explanatory notes are included to explain items that are significant to an understanding of the changes in the Company's financial position and performance since the last financial statements.

The principal accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those of the previous set of published Annual Report and Accounts for the year ended 31 March 2023.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenditure. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 March 2023 with the exception of changes in estimates that are required in determining the provision for income taxes and derivative financial instruments.

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

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 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. Management performs an independent valuation of these contracts which is then compared to the counterparty confirmations; management makes an adjustment for the Company's own credit risk using this valuation tool to extract an average of traded bond spreads at the balance sheet date.

During the period to 30 September 2023, one of the Company's derivatives qualified for hedge accounting under IFRS 9. The Company has selected not to apply hedge accounting to the qualifying hedge instrument. Our hedge instruments are carried at fair value through profit or loss with changes in fair value being recognised immediately in the income statement.

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.

Notes to the condensed interim financial statements

1. Basis of preparation (continued)

Deferred taxation (continued)

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.

Going concern

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

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy.

The Group is the custodian of a long-term business and long-term viability is built into every aspect of the Group's risk management and business planning processes. The Group ensures the continued robustness of the Group's risk management controls and financial forecasting through regular Board challenge of risk identification and assessment and forecasting assumptions. These processes are ongoing and have been designed to monitor inherent and existing risks and to capture emerging risks at the earliest level.

The Group's 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. 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 including: the deferral of capital expenditure; a reduction in other discretionary totex spend; and an extension of revolving credit facilities. The Group's Directors have also assessed 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 poses a significant concern to disclose in relation to the Group's ability to continue as a going concern.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken the Group's financial metrics, they remain within the investment grade credit rating and in compliance with our borrowing covenants. This is based on the judgement our revolving credit facilities will be renewed by the latest November 2024 next year, coinciding with the next forecasted debt repayment, which will provide the Group sufficient cash headroom. Discussions are ongoing with lenders with favourable indicators this will not present any material uncertainties to the determination of the Group continuing as a going concern.

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

Restatement

The balance sheet comparators for 30 September 2022 and 31 March 2023 have been restated for the presentation of derivative financial instruments. Derivative financial instruments are now presented as a single unit of account, whereas previously multiple units of account were applied to each instrument. This has resulted in changes to the balance sheet total amounts for non-current assets, current assets, current liabilities and non-current liabilities. There is no impact on the total balance of derivative financial instruments or on overall net assets.

2. Revenue information

The Company's business is solely to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig and therefore it operates in a single segment.

Notes to the condensed interim financial statements

3. Net financial expenses

a) **Financing cost before fair value gains**	**Six months ended 30 September 2023 £000 (unaudited)**	**Six months ended 30 September 2022 £000 (unaudited)**	**Year ended 31 March 2023 £000 (audited)**
Financial income:			
Intercompany	**137,900**	161,736	354,700
Financial expenses:			
Interest payable	**(137,160)**	(160,801)	(346,631)
Net financial income before fair value adjustments	**740**	935	8,069

b) **Fair value gains on derivative financial instruments**	**Six months ended 30 September 2023 £000 (unaudited)**	**Six months ended 30 September 2022 £000 (unaudited)**	**Year ended 31 March 2023 £000 (audited)**
Fair value gains on derivative financial instruments before indexation	**100,193**	232,509	232,144

4. Taxation

	Six months ended 30 September 2023 £000 (unaudited)	**Six months ended 30 September 2022 £000 (unaudited)**	**Year ended 31 March 2023 £000 (audited)**
Corporation tax			
Group relief	**(35)**	(24)	(48)
Deferred tax			
Current period movements	**(15,447)**	(24,970)	(25,675)
Adjustment for prior periods	**-**	(7,885)	(8,108)
	(15,482)	(32,879)	(33,831)
Profit before tax	**100,933**	233,444	240,231
Profit before tax multiplied by the corporation tax rate in the UK of 25% (comparatives 19%)	**(25,233)**	(44,354)	(45,644)
Effects of:			
Release of fair value adjustments - not deductible for tax	**150**	154	1,490
Fair value movements on derivatives - not taxable	**9,601**	19,206	18,432
Effect of tax rate changes - deferred taxes calculated at 25%	**-**	(7,885)	-
Prior years	**-**		(8,109)
Total taxation charge	**(15,482)**	(32,879)	(33,831)

5. Analysis and reconciliation of net funds

a) Net funds at the balance sheet date may be analysed as:	**Six months ended 30 September 2023 £000 (unaudited)**	**Six months ended 30 September 2022 £000 (unaudited)**	**Year ended 31 March 2023 £000 (audited)**
Cash and cash equivalents	**909**	693	851
Financial assets: group receivables	**4,536,125**	4,288,766	4,441,090
	4,537,034	4,289,459	4,441,941
Net accrued interest	**(24,667)**	(24,769)	(1,207)
Debt due after one year	**(3,876,036)**	(3,801,265)	(3,869,397)
Debt due within one year	**(12,500)**	(12,500)	(20,000)
	(3,913,203)	(3,838,534)	(3,890,604)
Net funds	**623,831**	450,925	551,337

b) The movement in funds debt during the period may be summarised as:	**Six months ended 30 September 2023 £000 (unaudited)**	**Six months ended 30 September 2022 £000 (unaudited)**	**Year ended 31 March 2023 £000 (audited)**
Net funds at start of period	**551,337**	356,022	356,022
Increase/(decrease) in net cash	**58**	(26)	132
(Increase)/decrease in receivables	**(38,246)**	55,665	(154,831)
Increase in debt	**59,985**	59,519	118,424
Increase/(decrease) in net funds arising from cash flows	**21,797**	115,158	(36,275)
Loan to group undertakings increase in receivables	**133,280**	64,202	427,021
Amortisation of bond issue premium	**394**	395	786
Indexation of index-linked debt	**(59,518)**	(60,701)	(161,357)
Movement in accrued interest	**(23,459)**	(24,151)	(34,860)
Movement in net funds during the period	**50,697**	(20,255)	231,590
Net funds at end of period	**623,831**	450,925	551,337

6. Financial risk management and financial instruments

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2023. There have been no changes in the risk management department or in any risk management policies since the 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).

6. Financial risk management and financial instruments (continued)

All of the Company's treasury derivatives are categorised at Level 2 and as at 30 September 2023 were valued as follows:

- Assets: treasury derivatives £14.0 (March 2023: treasury derivatives £26.2m); and
- Liabilities: treasury derivatives £353.4m (March 2023: treasury derivatives £394.1m).

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.

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Dŵr Cymru (Financing) UK plc

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Management responsibility statement of the Board of Directors

To the best of our knowledge, the financial statements have been prepared in accordance with the UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and give a true and fair view of the assets, liabilities, financial position and profit or loss of Dŵr Cymru (Financing) UK plc ('the Issuer').

To the best of our knowledge, the management report includes a fair view of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that we face.

Director
Name: Mike Davis

14 December 2023