Dŵr Cymru (Financing) Ltd

Interim report and accounts

for the six months ended 30 September 2015

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 2015 on pages 3 to 10.

Principal activities

The principal activity of the company is that of an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig.

Results and dividends

The profit before taxation amounted to £72,270,000 (2014: loss of £22,994,000). No dividend was declared or paid during the period (2014: £nil).

Business review

The company continues to act as an investment company providing long-term funding for the activities of Dŵr Cymru Cyfyngedig, the only trading subsidiary in the Glas Cymru group.

No significant events have occurred during the period.

The company has a special £135m liquidity facility (2014: £135m) which is a requirement of the company's bond covenants; it can only be drawn in the event that the company is in default of its covenants and unable to pay its interest bills. The facility is renewable annually.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of the Glas Cymru group, which include those of the company, are disclosed within the group's annual report. Management does not consider that these have changed materially during the first six months of the year, nor that there will be any significant change between now and the end of the year. Page 10 of this report refers to risk management of treasury activities within the company.

Key Performance Indicators ('KPIs')

The directors of the Glas Cymru group manage the group's operations on an overall basis. For this reason, the company's directors believe that analysis using KPIs is neither necessary nor appropriate for an understanding of the development, performance or position of the business of Dŵr Cymru (Financing) Limited. The development, performance and position of the group, which includes the company, are discussed within the group's annual report which does not form part of this report.

Interim income statement

	Note	Six months ended 30 September 2015 (unaudited) £000	Six months ended 30 September 2014 (unaudited) £000	Year ended 31 March 2015 (audited) £000
Financing costs				
- Finance cost	3a	(48,903)	(48,432)	(96,314)
- Finance income	3a	49,007	48,487	96,500
- Fair value gains/(losses) on derivative financial instruments	3b	72,166	(23,049)	(92,535)
Profit/ (loss) before taxation		72,270	(22,994)	(92,349)
Taxation (charge)/credit	4	(14,454)	4,598	18,471
Profit/ (loss) for the period		57,816	(18,396)	(73,878)

Underlying profit			
Profit/(loss) before taxation per income statement	72,270	(22,994)	(92,349)
Add back:			
- Effect of fair value (gains)/losses on derivative financial instruments	(72,166)	23,049	92,535
Profit before taxation and fair value adjustments	104	55	186

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

Interim statement of changes in equity

	Six months ended 30 September 2015 (unaudited) £000	Six months ended 30 September 2014 (unaudited) £000	Year ended 31 March 2015 (audited) £000
Deficit at start of period	(178,997)	(105,119)	(105,119)
Total comprehensive income/(expenditure) for the period	57,816	(18,396)	(73,878)
Deficit at end of period	(121,181)	(123,515)	(178,997)

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

Interim balance sheet

	At 30 September 2015 (unaudited) £000	At 30 September 2014 (unaudited) £000	At 31 March 2015 (audited) £000
Assets			
Non-current assets			
Deferred tax asset	31,027	31,629	45,481
Financial assets: loans to group undertakings	2,274,211	2,269,914	2,418,710
	2,305,238	2,301,543	2,464,191
Current assets			
Financial assets:			
Loans to group undertakings	12,208	16,564	12,208
Derivative financial instruments	3,689	3,689	3,676
Cash and cash equivalents	2,063	1,827	2,001
Other receivables	25	4	24
	17,985	22,084	17,909
Total Assets	2,323,223	2,323,627	2,482,100
Liabilities			
Current liabilities			
Other payables	(23,500)	(22,898)	(966)
Financial liabilities:			
- Borrowings	(12,208)	(16,563)	(12,208)
- Derivative financial instruments	(10,299)	(10,070)	(10,411)
	(46,007)	(49,531)	(23,585)
Net current liabilities	(28,022)	(27,447)	(5,676)
Non-current liabilities			
Financial liabilities:			
- Borrowings	(2,250,673)	(2,246,978)	(2,417,747)
- Derivative financial instruments	(147,724)	(150,633)	(219,765)
	(2,398,397)	(2,397,611)	(2,637,512)
Net liabilities	(121,181)	(123,515)	(178,997)
Deficit	(121,181)	(123,515)	(178,997)

The interim financial statements on pages 3 to 6 were approved by the Board of Directors on 12 November 2015 and were signed on its behalf by:

Chris Jones
Chief Executive Officer

Peter Bridgewater
Finance Director

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

Interim statement of cash flows

	Six months ended 30 September 2015 (unaudited) £000	Six months ended 30 September 2014 (unaudited) £000	Year ended 31 March 2015 (audited) £000
Cash flows from operating activities			
Interest received	26,434	48,486	96,500
Interest paid	(26,371)	(26,173)	(95,987)
Cash flows from operating activities - net	63	22,313	513
Cash flows from financing activities			
Intercompany loan received/(repaid)	4,545	(15,565)	(144,357)
Long-term loans received	-	-	160,000
Long-term loans repaid	(4,546)	(6,732)	(15,966)
Net cash used in from financing activities	(1)	(22,297)	(323)
Increase in net cash and cash equivalents	62	16	190
Cash and cash equivalents at start of period	2,001	1,811	1,811
Cash and cash equivalents at end of period	2,063	1,827	2,001

Notes to the condensed interim financial statements

1. Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all of the periods presented.

The interim report and accounts are for the six months ended 30 September 2015; they have been prepared in accordance with IAS 34, 'Interim financial reporting' as adopted by the European Union, using accounting policies consistent with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations. The interim report and accounts should be read in conjunction with the annual financial statements for the year ended 31 March 2015, which have been prepared in accordance with IFRS and IFRS IC interpretations as adopted by the European Union.

The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those of the previous set of published Annual Report and accounts for the year ended 31 March 2015.

The following new standards, interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2015 and have not been adopted early:

- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38
- Annual Improvements to IFRSs - 2012-2014 cycle
- Disclosure Initiative - Amendments to IAS 1
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Effective date of IFRS 15 - amendment to IFRS 15

These financial statements are unaudited. The interim financial results do not comprise the company's statutory accounts within the meaning of Section 434 of the Companies Act 2006. The results shown for the year ended 31 March 2015 have been derived from the company's audited full financial statements filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under Section 498(2) of 498(3) of the Companies Act 2006.

The accounting policies adopted are consistent with those of the previous set of published Annual Report and Accounts for the year ended 31 March 2015. The Annual Report and Accounts are published on the group's website www.dwrcymru.com and are available from the Company Secretary on request.

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 expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2015, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of exceptional items.

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

Going concern

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

The group is in a net liabilities position as at 30 September 2015. This does not represent any risk to cash flow or funding; £154 million of net liabilities relate to derivative financial instruments and assuming they are held to maturity will revert to zero with no cash impact. Excluding derivative financial instruments, the group had net assets of £33 million as at September 2015.

The directors have a reasonable expectation that the group has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the condensed consolidated interim financial statements. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group as well as consideration of the group's capital adequacy. In addition, the directors also considered the primary legal duty of Glas Cymru's economic regulator, to ensure that the companies can finance their functions.

2. Segmental information

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

3. Financing costs

a) **Financing cost before fair value gains/(losses)**	**Six months ended 30 September 2015 £000 (unaudited)**	**Six months ended 30 September 2014 £000 (unaudited)**	**Year ended 31 March 2015 £000 (audited)**
Interest payable on loans	(48,903)	(48,432)	(96,314)
Interest receivable:			
Intercompany	49,001	48,482	96,499
External	6	5	1
Net interest receivable before fair value adjustments	104	55	186

b) **Fair value gains/(losses) on derivative financial instruments**	**Six months ended 30 September 2015 £000 (unaudited)**	**Six months ended 30 September 2014 £000 (unaudited)**	**Year ended 31 March 2015 £000 (audited)**
Fair value gains/(losses) on interest rate swaps	72,166	(23,049)	(92,535)

Whilst the group employs an economically effective policy using interest rate and index-linked swaps, the hedge accounting criteria of IAS 39 are not satisfied. Consequently, the company's interest rate and index-linked swaps are fair valued at each balance sheet date with the movement (net loss or gain) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. The notional value of the interest rate swaps is £192m (2014: £192m) and the index-linked swaps £100m (2014: £100m).

4. Taxation

	30 September 2015 £000 (unaudited)	30 September 2014 £000 (unaudited)	31 March 2015 £000 (audited)
Deferred tax			
Prior year movements	-	-	22
Deferred tax			
Current year movements	14,454	(4,598)	(18,449)
	14,454	(4,598)	(18,471)
Profit/(loss before tax	72,270	(22,994)	(92,349)
Profit/(loss) before tax multiplied by the corporation tax in the UK of 20% (30 September 2014: 21%)	14,454	(4,829)	(19,393)
Effects of:			
Effect of tax rate change	-	231	922
Total taxation charge/ (credit)	14,454	(4,598)	(18,471)

5. Analysis and reconciliation of net funds

a) Net funds at the balance sheet date may be analysed as:	30 September 2015	30 September 2014	31 March 2015
	£000	£000	£000
	(unaudited)	(unaudited)	(audited)
Cash and cash equivalents	2,063	1,827	2,001
Financial assets: group receivables	2,286,419	2,286,478	2,430,918
	2,288,482	2,288,305	2,432,919
Net accrued interest	(23,500)	(22,898)	(966)
Debt due after one year	(2,250,673)	(2,246,978)	(2,417,747)
Debt due within one year	(12,208)	(16,563)	(12,208)
	(2,286,381)	(2,286,439)	(2,430,921)
Net funds	2,101	1,866	1,998

b) The movement in funds debt during the period may be summarised as:	30 September 2015	30 September 2014	31 March 2015
	£000	£000	£000
	(unaudited)	(unaudited)	(audited)
Net funds at start of period	1,998	1,810	1,810
Increase in net cash	62	16	190
Increase/(decrease) in receivables	(144,500)	27,951	172,392
Decrease/(increase) in debt	164,531	6,719	(144,064)
Increase/(decrease) in net funds arising from cash flows	20,093	34,686	28,518
Amortisation of bond issue premium	324	312	628
Indexation of index-linked debt	2,219	(12,684)	(28,632)
Movement in accrued interest	(22,533)	(22,258)	(326)
Movement in net funds during the period	103	56	188
Net debt at end of period	2,101	1,866	1,998

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 as at 31 March 2015. 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).

All of the company's trading and treasury derivatives are categorised at Level 2 and as at 30 September 2015 were valued as follows:

- Assets: Trading derivatives £0.0m, Treasury derivatives £3.7m. (March 2015: Trading derivatives £0.0m, Treasury derivatives £3.7m); and

- Liabilities: Trading derivatives £0.0m, Treasury derivatives £226.0m. (March 2015: Trading derivatives £0.0m, Treasury derivatives £160.7m).

Trading derivatives relate to power price hedges and are not recorded on the balance sheet. 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.

The power price hedging contracts have been fair valued using rates that are quoted in an active market. While interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

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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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) Limited (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: Christopher Alun Jones

Director:
Name: Peter Bridgewater