Dŵr Cymru (Financing) Ltd

Interim report and accounts
for the six months ended 30 September 2016

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 2016 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 loss before taxation amounted to £43,239,000 (2015: profit of £44,895,000). No dividend was declared or paid during the period (2015: £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 (2015: £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 2016 (unaudited) £000	Six months ended 30 September 2015 restated (unaudited) £000	Year ended 31 March 2016 (audited) £000
Financing costs				
- Finance cost	3a	**(49,026)**	(48,903)	(113,594)
- Finance income	3a	**49,127**	49,007	113,796
- Fair value (losses)/gains on derivative financial instruments	3b	**(43,340)**	44,791	30,104
(Loss)/profit before taxation		**(43,239)**	44,895	30,306
Taxation credit/(charge)	4	**6,441**	(8,979)	(7,880)
(Loss)/profit for the period		**(36,798)**	35,916	22,426

Underlying profit			
(Loss)/profit before taxation per income statement	**(43,239)**	44,895	30,306
Add back:			
- Effect of fair value losses/(gains) on derivative financial instruments	**43,340**	(44,791)	(30,104)
Profit before taxation and fair value adjustments	**101**	104	202

The notes on pages 7 to 10 are an integral part to these financial statements

Interim statement of changes in equity

	Six months ended 30 September 2016 (unaudited) £000	Six months ended 30 September 2015 restated (unaudited) £000	Year ended 31 March 2016 (audited) £000
Deficit at start of period	(71,646)	(94,072)	(94,072)
Total comprehensive (expenditure)/income for the period	(36,798)	35,916	22,426
Deficit at end of period	(108,444)	(58,156)	(71,646)

The notes on pages 7 to 10 are an integral part to these financial statements.

Interim balance sheet

	At 30 September 2016 (unaudited) £000	At 30 September 2015 restated (unaudited) £000	At 31 March 2016 (audited) £000
Assets			
Non-current assets			
Deferred tax asset	**22,811**	15,271	16,370
Financial assets:			
-loans to group undertakings	**2,273,516**	2,274,211	2,251,219
-derivative financial instruments	**100,775**	69,376	82,175
	2,397,102	2,358,858	2,349,764
Current assets			
Financial assets:			
- loans to group undertakings	**12,208**	12,208	21,938
- derivative financial instruments	**12,997**	13,094	12,442
Cash and cash equivalents	**2,245**	2,063	2,203
Other receivables	**21**	25	21
	27,471	27,390	36,604
Total Assets			
	2,424,573	2,386,248	2,386,368
Liabilities			
Current liabilities			
Other payables	**(23,330)**	(23,500)	(963)
Financial liabilities:			
- borrowings	**(12,208)**	(12,208)	(20,978)
- derivative financial instruments	**(10,261)**	(10,299)	(9,708)
	(45,799)	(46,007)	(31,649)
Net current liabilities	**(18,328)**	(18,617)	4,955
Non-current liabilities			
Financial liabilities:			
- borrowings	**(2,217,527)**	(2,250,673)	(2,218,616)
- derivative financial instruments	**(269,691)**	(147,724)	(207,749)
	(2,487,218)	(2,398,397)	(2,426,365)
Net liabilities	**(108,444)**	(58,156)	(71,646)
Equity			
Called up share capita	**30**	30	30
Accumulated losses	**(108,474)**	(58,186)	(71,676)
Total deficit	**(108,444)**	(58,156)	(71,646)

The interim financial statements on pages 3 to 6 were approved by the Board of Directors on 4 November 2016 and were signed on its behalf by:

Chris Jones
Chief Executive Officer

Peter Bridgewater
Finance Director

The notes on pages 7 to 10 are an integral part to these financial statements.

Interim statement of cash flows

	Six months ended 30 September 2016 (unaudited) £000	Six months ended 30 September 2015 restated (unaudited) £000	Year ended 31 March 2016 (audited) £000
Cash flows from operating activities			
Interest received	**26,720**	26,434	99,386
Interest paid	**(26,658)**	(26,371)	(99,199)
Cash flows from operating activities - net	**62**	63	187
Cash flows from financing activities			
Intercompany loan received/(repaid)	**12,026**	4,545	11,606
Long-term loans repaid	**(12,046)**	(4,546)	(11,591)
Net cash used in from financing activities	**(20)**	(1)	15
Increase in net cash and cash equivalents	**42**	62	202
Cash and cash equivalents at start of period	**2,203**	2,001	2,001
Cash and cash equivalents at end of period	**2,245**	2,063	2,203

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 2016; 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 2016, 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 2016.

No changes to standards, interpretations and amendments have been issued and there are no new standards that impact on the reporting period

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 2016 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 2016. The Annual Report and Accounts are published on the group's website www.dwrcymru.com and are available from the Company Secretary on request.

Restatement of prior year balances

The company holds a £192m interest rate swap which is used to hedge floating rate liabilities. Dŵr Cymru Cyfyngedig (DCC) is liable for any future cash liabilities relating to this swap under the terms of the intercompany loan arrangements. This was reported as an intercompany balance due from DCC at 31 March 2016 but was not reported as such for the period to 30 September 2015. A prior year adjustment has been made to reflect DCC's accountability for the fair value liability of this swap under the intercompany loan arrangements at 30 September 2015 and opening reserves have been restated accordingly:

	Derivative financial instruments	Deferred tax	Accumulated losses
	£000	£000	£000
At 31 March 2015 as previously reported	(226,500)	45,481	(179,027)
Adjustment to opening balances	69,429	(13,885)	55,544
Adjustment to in-year movement	36,727	(7,346)	29,381
At 31 March 2015 as restated	(120,344)	24,250	(94,102)
At 30 September 2015 as previously reported	(154,334)	31,027	(121,211)
Adjustment to opening balances	106,156	(21,231)	84,925
Adjustment to in-period movement	(27,375)	5,475	(21,900)
At 30 September as restated	(75,553)	15,271	(58,186)

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 2016, 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.

Notes to the condensed financial statements (continued)

Going concern

The directors believe that preparation of the financial statements on a going concern basis is appropriate due to continued financial support from the ultimate parent company Glas Cymru Holdings Cyfyngedig. The directors have received confirmation that Glas Cymru Holdings Cyfyngedig 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 2016. This does not represent any risk to cash flow or funding; £166 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 £58 million as at September 2016.

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 (losses)/gains	**Six months ended 30 September 2016 £000 (unaudited)**	**Six months ended 30 September 2015 £000 (unaudited)**	**Year ended 31 March 2016 £000 (audited)**
Interest payable on loans	(49,026)	(48,903)	(113,594)
Interest receivable:			
Intercompany	49,121	49,001	110,973
Index-linked swap	-	-	2,814
External	6	6	9
Net interest receivable before fair value adjustments	101	104	202

b) Fair value (losses)/gains on derivative financial instruments	**Six months ended 30 September 2016 £000 (unaudited)**	**Six months ended 30 September 2015 £000 restated (unaudited)**	**Year ended 31 March 2016 £000 (audited)**
Fair value (losses)/ gains on interest rate swaps	(43,340)	44,791	30,104

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 (2016: £192m) and the index-linked swaps £100m (2016: £100m).

4. Taxation

	30 September 2016	30 September 2015	31 March 2016
	£000	£000	£000
		restated	
	(unaudited)	(unaudited)	(audited)
Deferred tax			
Current year movements	(6,441)	8,979	7,880
	(6,441)	8,979	7,880
(Loss)/profit before tax	(43,239)	44,895	30,306
(Loss)/profit) before tax multiplied by the corporation tax in the UK of 20% (30 September 2015: 20%)	(8,648)	8,979	6,061
Effects of:			
Effect of tax rate change	2,207	-	1,819
Total taxation charge	(6,441)	8,979	7,880

5. Analysis and reconciliation of net funds

a) **Net funds at the balance sheet date may be analysed as:**	30 September 2016	30 September 2015	31 March 2016
	£000	£000	£000
	(unaudited)	(unaudited)	(audited)
Cash and cash equivalents	2,245	2,063	2,203
Financial assets: group receivables	2,285,724	2,286,419	2,273,157
	2,287,969	2,288,482	2,275,360
Net accrued interest	(23,330)	(23,500)	(963)
Debt due after one year	(2,217,527)	(2,250,673)	(2,218,616)
Debt due within one year	(12,208)	(12,208)	(20,978)
	(2,253,065)	(2,286,381)	(2,240,557)
Net funds	34,904	2,101	34,803

b) The movement in funds debt during the period may be summarised as:	30 September 2016 £000 (unaudited)	30 September 2015 £000 (unaudited)	31 March 2016 £000 (audited)
Net funds at start of period	34,803	1,998	1,998
Increase in net cash	42	62	202
Increase/(decrease) in receivables	12,570	(144,500)	33,524
Decrease in debt	12,029	164,531	11,592
Increase in net funds arising from cash flows	24,641	20,093	45,318
Amortisation of bond issue premium	324	324	616
Indexation of index-linked debt	(2,494)	2,219	(13,129)
Movement in accrued interest	(22,370)	(22,533)	-
Movement in net funds during the period	101	103	32,805
Net debt at end of period	34,904	2,101	34,803

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 2016. 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 2016 were valued as follows:

- Assets: Trading derivatives £0.0m, Treasury derivatives £113.8m. (March 2016: Trading derivatives £0.0m, Treasury derivatives £94.6m); and
- Liabilities: Trading derivatives £0.0m, Treasury derivatives £280.0m. (March 2016: Trading derivatives £0.0m, Treasury derivatives £217.5m).

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.

Dŵr Cymru (Financing) Limited

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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