UK Registered Nº FC23222
Cayman Islands Registered Nº 108127

Dŵr Cymru (Financing) Limited

Annual report and financial statements for the year to 31 March 2013

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Directors' report and business review

The directors have pleasure in presenting their annual report to the shareholder, together with the audited financial statements for the year to 31 March 2013 on pages 5 to 20.

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.

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 Cyfyngedig intends to support the company for at least one year after these financial statements are signed.

Results and dividends
The loss before taxation amounted to £26,009,000 (2012: loss of £57,359,000). No dividend was declared or paid during the year (2012: £nil).

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

The company has a £100 million facility with the European Investment Bank, of which £75 million remained undrawn as at 31 March 2013 (2012: £75 million). On 7 August 2012, the European Investment Bank agreed to extend the date on or before which the facility can be drawn, form 3 September 2012 to 3 March 2014.

The company also renewed it special £135 million liquidity facility on 11 April 2012 with a syndicate of four banks. This facility is a requirement of the company's bond covenants, and 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.

The current ratings of the company's bonds are summarised in the following table:

Bond Class	Moody's	S&P	Fitch
A	A3	A	A
B	A3	A	A
C	Baa2	BBB+	BBB+

The rating of the Class A bonds, which have the benefit of a financial guarantee from MBIA, are the higher of the underlying ratings of these bonds (A3/A/A) and the rating of MBIA (B1/B/-).

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 which does not form part of this report.

Key Performance Indicators ('KPIs')

The directors of the Glas Cymru Cyfyngedig 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.

Directors

The directors, who served throughout the year and up to the date of signing the financial statements, were C A Jones and N C Annett.

Disclosure of information to auditors

PricewaterhouseCoopers LLP acted as auditors to Dŵr Cymru (Financing) Limited for the financial statements for the year ended 31 March 2013. As part of the audit process each director has confirmed, as at the date of the financial statements, that as far as the director is aware (a) there is no relevant audit information of which the company's auditors are unaware, and (b) they have taken steps to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue as auditors and a resolution for their reappointment will be considered at the 2013 annual general meeting.

By order of the Board

N Williams
Company Secretary

13 June 2013

Statement of directors' responsibilities

The directors are responsible for preparing 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 the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

N Williams
Company Secretary

13 June 2013

Independent auditors' report to the members of Dŵr Cymru (Financing) Limited

We have audited the financial statements of Dŵr Cymru (Financing) Limited for the year ended 31 March 2013 which comprise the income statement, the statement of changes in equity, the balance sheet, the cash flow statement, the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
13 June 2013

Income statement for the year ended 31 March 2013

	Note	£000	2013 £000	£000	2012 £000
Financing costs:					
- Finance cost	2a	**(93,209)**		(91,258)	
- Finance income	2a	**93,402**		91,455	
- Fair value losses on derivative financial instruments	2b	**(26,202)**		(57,556)	
Loss before taxation			**(26,009)**		(57,359)
Taxation	4		**4,594**		12,137
Loss for the year			**(21,415)**		(45,222)

Underlying profit for the year (Profit before taxation and fair value adjustments)	Note	2013 £000	2012 £000
Loss before taxation per the income statement		**(26,009)**	(57,359)
Adjustment for: -Fair value losses on derivative financial statements	2b	**26,202**	57,556
Profit for the year before taxation and fair value adjustments		**193**	197

All operations are continuing.

The company has no other recognised gains or losses in the year (2012: £nil) and accordingly a statement of comprehensive income has not been presented.

Statement of changes in equity for the year ended 31 March 2013

	Called up share capital £'000	Accumulated losses £'000	Total deficit £'000
At 1 April 2011	30	(57,279)	(57,249)
Loss for the year	-	(45,222)	(45,222)
At 31 March 2012	30	(102,501)	(102,471)
Loss for the year	-	(21,415)	(21,415)
At 31 March 2013	**30**	**(123,916)**	**(123,886)**

Balance sheet as at 31 March 2013

	Note	2013 £000	2012 £000
Assets			
Non-current assets			
Deferred tax asset	11	**37,901**	33,307
Financial assets:			
- loans to group undertakings	5	**2,144,330**	2,119,435
		2,182,231	2,152,742
Current assets			
Financial assets:			
- loans to group undertakings	5	**65,298**	65,408
- derivative financial instruments	9	**4,433**	4,391
Cash and cash equivalents	6	**1,523**	1,335
Other receivables		**3**	3
		71,257	71,137
Liabilities			
Current liabilities			
Other Payables	7	**(51,157)**	(51,290)
Financial liabilities:			
- borrowings	8	**(14,046)**	(14,027)
- derivative financial instruments	9	**(11,543)**	(9,971)
		(76,746)	(75,288)
Net current liabilities		**(5,489)**	(4,151)
Non-current liabilities			
Financial liabilities:			
- borrowings	8	**(2,144,330)**	(2,119,436)
- derivative financial instruments	9	**(156,298)**	(131,626)
		(2,300,628)	(2,251,062)
Net liabilities		**(123,886)**	(102,471)
Equity			
Called up share capital	12	**30**	30
Accumulated losses		**(123,916)**	(102,501)
Total deficit		**(123,886)**	(102,471)

The financial statements on pages 5 to 20 were approved by the Board of directors on 13 June 2013 and were signed on its behalf by:

N C Annett
Managing Director

C A Jones
Finance Director

Cash flow statement for the year ended 31 March 2013

	Note	2013 £000	2012 £000
Cash flows from operating activities			
Interest received		**93,402**	40,751
Interest paid		**(93,342)**	(40,542)
Net cash generated from operating activities		**60**	209
Cash flows from financing activities			
Intercompany loan issued		-	(153,076)
Intercompany loan repaid		**13,594**	13,363
Bond issue proceeds		-	128,076
Long-term loans received		-	25,000
Long-term loans repaid		**(13,466)**	(13,466)
Net cash generated from/used in financing activities		**128**	(103)
Increase in net cash and cash equivalents	13	**188**	106
Cash and cash equivalents at 1 April		**1,335**	1,229
Cash and cash equivalents at 31 March	6	**1,523**	1,335

Note:

£50.7m of interest was received and paid by the company on 2 April 2012, as the normal due date of 31 March was a non-banking day. A further £50.7m of interest was received and paid by the company on 2 April 2013, as the normal due date of 31 March was again a non-banking day.

Principal accounting policies

Basis of Preparation
The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and those parts of the Companies Act 2006 applicable to reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements to conform to IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

At the date of approval of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures (amendment)
IFRS 9	Financial Instruments: Classification and Measurement
IFRS 10	Consolidated Financial Statements
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements (amendment)
IAS 32	Financial Instruments; Presentation (amendment)

The presentational impact of the other Standards and Interpretations is being assessed, but the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the company.

Accounting policies for the year ended 31 March 2013
The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented.

Cash and cash equivalents
Cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and typically include cash in hand and deposits with banks or other financial institutions, less any overdrafts.

Financial liabilities
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.

Financial assets
Financial assets represent held to maturity investments that are non-derivative, with fixed or determinable payments and fixed maturities of over three months at the date of acquisition, which the group intends to hold until maturity. In addition, financial assets 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.

Financial assets are held at amortised cost.

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 group.

Derivatives are recognised initially and subsequently re-measured at fair value.

During the year to 31 March 2013, none of the company's derivatives qualified for hedge accounting under IAS 39 (2012: none). These 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.

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 substantially enacted at the balance sheet date (2013: 23%, 2012: 24%).

Financing risk management objectives and policies

Treasury activities are managed at a group level within a formal set of treasury policies and objectives, which are reviewed regularly 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 group has a prudent policy for investing cash and short term bank deposits, set by the bond documentation within the Common Terms Agreement. Deposits of up to one year can be plased with counterparties that have a minimum short-term rating of A1/P1/F1 from Standard & Poor's, Moody's and Fitch Ratings respectively. Deposits of over one year should be placed with counterparties that carry a minimum rating of AA-/Aa3/AA-.

In practice, in the current economic environment the company has adopted a more prudent approach to cash management and deposits are placed for a maximum of three months with banks subject to minimum short-term rating criteria of A1/P1/F1. The maximum cash investment with a single counterparty was £1.5m (2012: £1.3m).

Interest rate risk

The group hedges at least 85% of its total outstanding financial liabilities, including finance leases, into either index-linked or fixed rate obligations. For this purpose floating rate interest liabilities are hedged through a combination of derivative instruments and cash balances. The regulatory framework under which revenues and the regulatory asset value are indexed also exposes the group to inflation risk. 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 group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Of total borrowings of £2,895m as at 31 March 2013 (2012: £2,990m), none related to floating rate debt (2012: none). The group therefore considers overall interest rate exposure at the balance sheet date to be minimal.

The 'hedges' established to manage these risks are economic in nature, but do not satisfy the specific requirements of IAS 39 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 group borrowings of £2,895m (2012: £2,990m) can fall due in any 24 month period.

Liquidity risk

The group maintains committed banking facilities in order to provide flexibility in the management of the group's liquidity. Under the Common Terms Agreement which governs the group's obligations to its bond holders and other financial creditors, the group is required to have cash available to fund operations for a duration of 18 months. As at 31 March 2012, the group had committed undrawn borrowing facilities of £215m (2012: £215m) and cash and cash equivalents (excluding debt service payments account) of £98m (2012: £238m).

On 17 and 18 May 2011 the company entered into new revolving credit facilities totalling £140m with a group of six banks. £50 million of these facilities remain available to be drawn by May 2016, with the balance of £90m in May 2017.

As at 31 March 2013 there was also a special liquidity facility of £135m (2012: £135m); this is required in order to meet certain interest and other obligations that cannot 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.

Financing risk management objectives and policies cont'd

Capital risk management

The group's objective when managing capital is to safeguard its ability to continue as a going concern. Given the regulatory environment in which the group operates, the group monitors capital on the basis of the gearing ratio. This is calculated as net debt (as defined in the group's 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 2013 gearing was 63% (2012: 65%).

In respect of the risks detailed above, further quantitative disclosures are provided in note 10.

Notes to the financial statements

1. **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.

2. **Net Finance costs**

a) Net interest before fair value losses on derivative financial instruments

	2013	2012
	£000	£000
Interest payable on loans	**(93,209)**	(91,258)
Interest receivable:		
- intercompany (note 16)	**93,395**	91,444
- external	**7**	11
	93,402	91,455
Net interest receivable before fair value adjustments	**193**	197

b) Fair value losses on derivative financial instruments

	2013	2012
	£000	£000
Fair value losses on derivative financial instruments	**(26,202)**	(57,556)

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 IAS 39. 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 9 in respect of derivative financial instruments held on the balance sheet).

3. **Loss before taxation**

Services provided by the company's auditor
Audit fees of £5,000 (2012: £5,000) have been borne by a fellow group company.

4. **Taxation**

	2013	2012
	£000	£000
Deferred tax		
- current year movements	**(4,594)**	(12,137)
Taxation credit	**(4,594)**	12,137

4. Taxation cont'd

The taxation credit for the year is higher than (2012: higher than) the standard rate of corporation tax in the UK (2013: 24%, 2012: 26%):

	2013 £000	2012 £000
Loss before taxation	**(26,009)**	(57,359)
Loss before taxation multiplied by the corporation tax rate in the UK of 24% (2012: 26%)	**(6,242)**	(14,913)
Effect of tax rate change	**1,648**	2,776
Total taxation credit	**(4,594)**	(12,137)

5. Financial assets

	2013 £000	2012 £000
Non-current		
Loans to group undertakings	**2,144,330**	2,119,435
Current		
Loans to group undertakings	**65,298**	65,408

6. Cash and cash equivalents

	2013 £000	2012 £000
Short-term deposits	**1,523**	1,335

The effective interest rate on short-term deposits as at 31 March 2013 was 0.5% (2012: 0.6%) and these deposits had an average maturity of 15 days (2012: 12 days).

7. Other payables

	2013 £000	2012 £000
Accrued interest payable	**51,157**	51,290

8. Financial liabilities – borrowings

	2013 £000	2012 £000
Current		
Bonds	**580**	561
European Investment Bank loans	**13,466**	13,466
	14,046	14,027
Non-current		
Bonds	**1,946,773**	1,908,413
European Investment Bank loans	**197,557**	211,023
	2,144,330	2,119,436

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.

9. Derivative financial instruments

All derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IAS 39. As such, movements in their fair values are taken to the Income Statement (see note 2b). The fair values of all derivative financial instruments held by the company are the result of mark-to-market pricing by the issuing counterparties and as such fall within level 2 of the fair value hierarchy set out in IFRS 7.

2013	**Fair values**	
	Assets £000	**Liabilities £000**
Current		
Index-linked swaps	**4,433**	**(1,721)**
Interest rate swaps	**-**	**(9,822)**
	4,433	**(11,543)**
Non-current		
Index-linked swaps	**-**	**(74,122)**
Interest rate swaps	**-**	**(82,176)**
	-	**(156,298)**
Total	**4,433**	**(167,841)**

9. Derivative financial instruments cont'd

2012	Fair values	
	Assets	**Liabilities**
	£000	**£000**
Current		
Index-linked swaps	4,391	(1,652)
Interest rate swaps	-	(8,319)
	4,391	(9,971)
Non-current		
Index-linked swaps	-	(60,492)
Interest rate swaps	-	(71,134)
	-	(131,626)
Total	4,391	(141,597)

The notional values of the swaps are: interest rate swaps - £192m (2012: £192m); index-linked swaps - £100m (2012: £100m).

In accordance with IAS 39, "Financial instruments: recognition and measurement", Dŵr Cymru (Financing) Limited has 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. Dŵr Cymru (Financing) Limited has no such embedded derivatives as per IAS 39.

Index-linked swaps

The index-linked swaps have the effect of index-linking the interest rate on £100 million of fixed rate bonds by reference to the retail price index ("RPI").

The principal terms are as follows:

Indexed notional amount:	£124 million (2012: £120 million)
Swap maturity:	44 years (2012: 45 years)
Interest rate:	1.35% (indexed by RPI)

10. Financial risk management

The policies of the group in respect of financial risk management are included in the accounting policies note on page 10. 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:

	2013	2012
Assets		
Cash and cash equivalents	**0.5%**	0.6%
Amounts owed by group undertakings	**4.7%**	4.6%
Liabilities		
Bonds	**5.1%**	5.0%
European Investment Bank loans	**1.0%**	1.3%

Other receivables and payables are non-interest bearing.
The effective interest rates ignore the effect of the interest rate swaps set out in note 9.

b) Liquidity risk

2013	**< 1 year £000**	**1–2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Assets					
Cash and cash equivalents	**1,523**	-	-	-	**1,523**
Financial assets:					
Loan to group undertakings	**65,298**	**16,563**	**55,434**	**2,072,333**	**2,209,628**
	66,821	**16,563**	**55,434**	**2,072,333**	**2,211,151**
Liabilities					
Bonds	**580**	**597**	**1,911**	**1,944,265**	**1,947,353**
European Investment Bank loans	**13,466**	**15,966**	**53,523**	**128,068**	**211,023**
Other payables	**51,157**	-	-	-	**51,157**
	65,203	**16,563**	**55,434**	**2,072,333**	**2,209,533**

2012	**< 1 year £000**	**1–2 years £000**	**2-5 years £000**	**> 5 years £000**	**Total £000**
Assets					
Cash and cash equivalents	1,335	-	-	-	1,335
Financial assets:					
Loan to group undertakings	65,408	14,045	49,750	2,055,640	2,184,843
	66,743	14,045	49,750	2,055,641	2,186,178
Liabilities					
Bonds	561	579	1,852	1,905,982	1,908,974
European Investment Bank loans	13,466	13,466	47,898	149,659	224,489
Other payables	51,290	-	-	-	51,290
	65,317	14,045	49,750	2,055,641	2,184,753

10. Financial risk management cont'd

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 9.

	2013 Book value £000	**2013 Fair value £000**	2012 Book value £000	2012 Fair value £000
Fair value of other financial assets				
- cash and cash equivalents	**1,523**	**1,523**	1,335	1,335
- loans to group undertakings (note 5)	**2,209,628**	**2,760,894**	2,184,843	2,544,729
Fair value of other financial liabilities				
- European Investment Bank loans (note 8)	**211,023**	**211,023**	224,489	224,489
- bonds (note 8)	**1,947,353**	**2,498,714**	1,908,974	2,268,950
- other payables (note 7)	**51,157**	**51,157**	51,290	51,290

d) Borrowing facilities

The company has the following undrawn committed borrowing facilities available at 31 March, in respect of which all conditions precedent had been met at that date:

	2013 £000	2012 £000
Expiring in less than 1 year		
Term loan facility	**75,000**	75,000
	75,000	75,000
Expiring in more than 1 year		
Revolving credit facilities	**140,000**	140,000
	140,000	140,000
	215,000	215,000

During the year the availability period for the drawdown of the remaining £75m European Investment Bank facility was extended by 18 months. The facility can now be drawn up to March 2014.

At 31 March 2013, the company also had a special liquidity facility of £135m (2012: £135m) which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. A standstill would occur in the event that Dŵr Cymru Cyfyngedig defaults on its debt financing covenants. No such covenant default has arisen during the year. The facility is renewable on an annual basis.

All of the above facilities are at floating rates of interest.

The company's £140m of revolving credit facilities are with a group of 6 banks. £50m of these facilities remain available until May 2016, with the balance of £90m until May 2017.

10. Financial risk management cont'd

e) Capital risk management

Gearing ratios (group)

	2013 £m	2012 £m
Total borrowings	**(2,895)**	(2,990)
Less: cash and cash equivalents	**157**	301
Net debt	**(2,738)**	(2,689)
RCV	**4,344**	4,171
Total capital	**1,606**	1,482
Less: unamortised bond costs	**(6)**	(6)
Total capital per bond covenants	**1,600**	1,476
Gearing ratio	**63%**	65%

While the company has no capital requirements, as set out on page 11 the group monitors its capital structure based on a regulatory gearing ratio which compares its net debt with the Ofwat-determined RCV.

11. Deferred tax asset

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2012: 24%)

The movement in the deferred tax asset is as shown below:

	2013 £000	2012 £000
At 1 April	**33,307**	21,170
Income statement credit	**4,594**	12,137
At 31 March	**37,901**	33,307

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

	2013 £000	2012 £000
Tax losses and other temporary differences	**37,901**	33,307
Deferred tax asset	**37,901**	33,307

12. Called up share capital

	2013 £000	2012 £000
Authorised		
50,000 (2012:50,000) ordinary shares of £1 each	**50**	50
Allotted and fully paid		
30,000 (2012:30,000) called up ordinary shares of £1 each	**30**	30

13. Analysis and reconciliation of net funds

a) Net funds at the balance sheet date may be analysed as:

	2013 £000	2012 £000
Cash and cash equivalents	**1,523**	1,335
Financial assets:		
- group receivables	**2,209,628**	2,184,843
	2,211,151	2,186,178
Net accrued interest	**(51,157)**	(51,290)
Debt due after one year	**(2,144,330)**	(2,119,436)
Debt due within one year	**(14,046)**	(14,027)
	(2,209,533)	(2,184,753)
Net funds	**1,618**	1,425

b) The movement in net funds during the year may be summarised as:

	2013 £000	2012 £000
Net funds at start of year	**1,425**	1,229
Increase in net cash	**188**	106
Increase in receivables	**24,785**	241,984
Decrease/(increase) in debt	**13,436**	(139,610)
Increase in net funds arising from cash flows	**38,409**	102,480
Amortisation of bond issue premium	**591**	543
Indexation of index-linked debt	**(38,940)**	(52,112)
Movement in accrued interest	**133**	(50,715)
Movement in net funds during the year	**193**	196
Net funds at the end of the year	**1,618**	1,425

14. Employees and directors

The emoluments of the directors are paid by the parent company which makes no recharge to the company. The directors of the parent company are directors of a number of fellow subsidiaries and it is not possible to make an accurate apportionment of his emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of directors. Total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the parent company.

15. Contingent assets and liabilities

Under the company's intercompany loan arrangements with Dŵr Cymru Cyfyngedig ("DCC"), DCC is liable for any cash liabilities that may arise to the extent that such cash liabilities are not already included in fixed interest rates under the tranches of the inter-company loan. An amount equal to such cash liabilities is recharged by the company to DCC as fees under the intercompany loan arrangements.

On 10 May 2001, the company had entered into £625 million notional of interest rate swaps. The purpose of these interest rate swaps was to fix the interest rate on an equivalent amount of floating rate bonds issued by the company. The floating rate borrowings and the interest rate swaps were matched and re-charged to DCC as fixed interest tranches of the intercompany loan of the same date.

The company's floating rate bonds, and the related fixed interest tranches of the intercompany loan, were repaid on 31 March 2005 (£100m), 30 June 2005 (£425m) and 31 March 2006 (£100m). The company's interest rate swaps remained in place to hedge other floating rate liabilities of the group, in accordance with the group's hedging strategy.

DCC remains liable, under the intercompany loan arrangements, for any future cash liabilities under the remaining interest rate swap of £192m (2012: £192m) notional. As at 31 March 2013, the mark-to-market value of this interest rate swap was £92m (2012: £79m), and the interest rate and maturity of the swap were 5.67% and 18 years (2012: 5.67% and 19 years) respectively.

16. Related party transactions

Company interest receivable from Dŵr Cymru Cyfyngedig, another member of the Glas Cymru Cyfyngedig group was £93,394,953 during the year (2012: £91,443,750).

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 Cyfyngedig, both of which are registered in England and Wales. The largest and smallest group within which the results of the company are consolidated is that headed by Glas Cymru Cyfyngedig, whose consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

Dwr Cymru (Financing) Limited

Contact Address
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

Dwr Cymru (Financing) Limited

UK Registered Office: Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY, United Kingdom

Cayman Islands Registered Office: PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands

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 Dwr 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.

13 June 2013

NCAnnett

Director:
Name: Nigel Charles Annett

C.A. Jones

Director:
Name: Christopher Alun Jones