glas

Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 March 2013

Important Notice

This report is being distributed in fulfilment of a document, the Common Terms Agreement (CTA), which governs the company's obligations to its bond holders and other financial creditors. It is directed to, and intended for, existing investors in the company. No persons should act or rely on it (except as provided in the CTA). The company makes no representation as to the accuracy of forecast information or any other information in this report (other than as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. This unaudited report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment in the company. For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in Article 69 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as it relates to bonds which are already admitted to trading on a relevant market).

Nothing in this report constitutes an offer of securities for sale in the United States or any other jurisdiction. This announcement does not constitute a prospectus or a prospectus equivalent document.

This report is being made available to you on the basis that you are a person into whose possession this report may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to deliver or otherwise make available this report to any other person. The distribution of this report may be restricted by law and therefore persons into whose possession this report comes should inform themselves about, and observe, such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities or other laws of any such jurisdiction.

Contents

General overview and business update

This quarterly Investor Report covers the three month period ending 31 March 2013. The Investor Report has been prepared to comply with the specific requirements of the Common Terms Agreement (CTA) which governs the company's obligations to its bondholders and other financial creditors.

The financial information in this report is drawn from the company's accounting records, applying the accounting policies as per the company's statutory accounts, but is presented in a modified form for investors as required by the CTA.

Business performance including key performance indicators for operations and customer service are reported in the company's annual report and accounts. These are available on the company's website (www.dwrcymru.com).

Financial performance

Summary financial results for the year ended 31 March are as follows:

	Year to 31 March 2013 £m	Year to 31 March 2012 £m	Change
Revenue	716	695	+3%
Operating costs	295	273	+8%
EBITDA (before infrastructure renewals expenditure)	**421**	**422**	
Net interest (excluding indexation)	96	132	
Capital expenditure (before grants and contributions)	338	262	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2013 is in line with last year – Ofwat's RPI & K price increases are largely responsible for the rise in income of some £21 million, offset by an additional £22 million of operating costs.

Revenue in the year to 31 March 2013 was £716 million, as compared to £695 million in the year to 31 March 2012. The increase is a reflection of the overall price increase of 4.8% (being the RPI+K adjustment allowed by Ofwat). During the period, 15,000 domestic customers switched to metered charging (2012: 14,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £295 million (2012: £273 million) and have increased by 8% due to increased energy costs, wastewater compliance costs, private sewer-related expenditure and the impact of general inflation.

Net interest payable in the period (excluding fair value movements) was £134 million (2012: £185 million), including an indexation charge on index-linked debt of £39 million (2012: £52 million) and an accounting profit of £20 million following the termination of finance leases.

The regulatory gearing (the ratio of net debt to regulatory capital value) of the company was as follows:

£m	**31 March 2013**	**31 March 2012**
Net debt	2,744	2,696
Regulatory capital value	4,344	4,171
'Financial reserves'	**1,600**	**1,475**
Regulatory gearing	63%	65%

On Glas Cymru's acquisition of Welsh Water in May 2001, gearing stood at 93% (net debt/RCV). Since then, the financial position of the group has improved steadily, such that gearing has fallen to 63% as at 31 March 2013 and 'financial reserves' (RCV less net debt) are £1.6 billion.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £338 million before grants and contributions (2012: £262 million). Of that £338 million, £202 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £268 million is classed as capital maintenance. We have invested £842 million to date into our AMP5 capital programme; during the five year regulatory period to 2015 we plan to invest £1.5 billion to safeguard drinking water quality, protect our environment from pollution, improve customer service and deliver further cost savings.

Prospective financial ratio tests

As required by the CTA to demonstrate compliance with prospective financial ratio tests (regulatory asset ratio and interest cover ratios), this report includes projected ratios up to 31 March 2015. These projected ratios are in the format specified by the CTA. On this basis, the prospective financial ratios exceed the "trigger levels" as defined in the CTA (see pages 9 and 10). It should be noted that the company's business plan and the projected ratios have not been reviewed by the company's auditors and the reader's attention is drawn to the important notice at the front of this document.

Credit ratings

The strong credit quality of the business is reflected in credit ratings which are now the highest in the UK utility sector. The ratings of the company's bonds are as follows:

Bond Class	Moody's	S&P	Fitch
A*	A3	A	A
B	A3	A	A

*The credit ratings of the company's Class A Bonds, which are guaranteed by MBIA (B/B3/-), revert to their higher underlying ratings of A3/A/A by Moody's Investor Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch) respectively.

Fitch reaffirmed Glas Cymru's credit ratings on 26 March 2013. All ratings have stable outlook.

Financing and liquidity

As at 31 March 2013, undrawn credit facilities and cash (excluding the debt service reserve account deposits of £60 million) amounted to £312 million, including undrawn revolving credit and European Investment Bank facilities of £140 million and £75 million respectively. In line with prudent policies approved by the board, cash is invested in AAA-rated liquidity funds and bonds, and banks subject to minimum short-term rating criteria of A1/P1/F1.

General overview and business update cont'd

Private Sewers

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000 kilometres of private sewers and drains has significantly increased the size of the network. Little information is available to judge the condition of these sewers – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the RCV of the business, no value has been attributed to these assets in the balance sheet as at 31 March 2013.

Regulatory arrangements have yet to be finalised with regard to the recovery of additional expenditure associated with this transfer. The treatment is expected to be via existing regulatory methods, at the 2014 price review or an earlier interim determination of the price control. As far as possible, it is expected that the performance of these new assets will be ring-fenced so as not to distort the assessment of the underlying performance of the business.

Albion Water case

A Competition Appeal Tribunal hearing began on 15 October 2012 in order to determine damages in respect of a long running dispute involving a 'common carriage' price offered by Dŵr Cymru in 2000 to Albion Water. Albion Water's claim was for damages of up to £14 million. On 28 March 2013 the Tribunal awarded some £1.8 million in compensatory damages (plus interest) but refused any award of Albion's exemplary damages claim.

2014 Price Review

On 11 April 2013, Ofwat published a consultation on its proposed risk-based approach to reviewing business plans (for the period 2015 to 2020) and the expected data requirements to be submitted by all appointed water and sewerage and water-only companies in England and Wales. A copy of the proposal can be found online at http://www.ofwat.gov.uk/pricereview/pr14/pap_con201304busplanning.pdf. The consultation closed on 23 May 2013.

Investors

Our annual meeting for investors will be held at 11.00 on Monday 22 July 2013 at the offices of HSBC Bank plc, 8 Canada Square, Canary Wharf, London EC14 5HQ. If you would like to attend the meeting or to arrange a one-to-one meeting with the Finance Director or the Treasurer, please contact Gina Cardwell (telephone 01443 452768) or send an e-mail request to investors@dwrcymru.com.

Consolidated cash flow

	3 months ended 31 March 2013 £m	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Revenue	176.1	716.4	695.0
Less: operating expenses	(81.7)	(295.0)	(272.5)
Earnings before interest, taxation, depreciation and amortisation	94.4	421.4	422.5
Working capital movements	31.9	27.5	7.3
Non bond-related interest paid	0.1	(2.4)	(4.2)
Interest capitalised in accordance with IAS 23	(0.8)	(6.5)	(6.7)
Interest received	0.3	7.3	4.6
Net operating cash flow and interest received	125.9	447.3	423.5
New borrowings:			
Class B bonds	-	-	128.1
European Investment Bank	-	-	25.0
Utilisation of reserves:			
Cash transferred to capex reserve	(54.0)	(219.3)	(104.4)
Cash utilised from capex reserve	54.0	204.3	119.4
Capital expenditure:			
Net profit on disposal of assets	0.1	0.2	0.1
Infrastructure renewals expenditure	4.0	(77.8)	(82.4)
Non-infrastructure maintenance	(66.6)	(120.5)	(89.2)
Enhancement expenditure	(27.1)	(119.7)	(85.7)
Net cash flow after capital expenditure, new borrowings and reserve drawings	36.3	114.5	334.4
Transfer to debt service payments account	(39.2)	(127.4)	(150.2)
Principal repayments	(12.6)	(131.6)	(21.6)
Net cash flow after debt service	(15.5)	(144.5)	162.6
Free cash balances brought forward	113.2	242.2	79.7
Free cash balances carried forward	97.7	97.7	242.2

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2013 £m	Amount accrued 31 March 2013 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	-
Interest on senior debt:		
Finance lease interest payments	14.5	38.5
A1 interest payments	-	21.1
A4 interest payments	6.6	-
A5 interest payments	2.1	-
A6 interest payments	-	4.5
B1 interest payments	-	22.4
B3 interest payments	4.0	-
B4 interest payments	2.3	-
B5 interest payments	0.4	-
B6 interest payments	-	2.7
European Investment Bank loan interest payments	0.3	0.5
KfW IPEX-Bank GmbH loan interest payments	0.1	-
Revolving credit facility commitment fees	0.1	-
MBIA wrapping fees	4.2	-
Miscellaneous fees	2.5	0.2
	37.2	89.9
Interest rate swaps	21.3	-
Senior interest payments	58.5	89.9
Total debt service payments	58.5	89.9

Glas notes principal balance reconciliation

	Credit rating[1]	Opening balance 1 January 2013 £m	Repayment £m	Indexation £m	Closing balance 31 March 2013 £m
Finance leases		626.5	(10.2)	-	616.3
Class A bonds[2]					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		370.5	-	3.2	373.7
A5 notes		119.6	-	1.9	121.5
A6 notes[3]		123.1	-	1.1	124.2
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		179.8	-	1.5	181.3
B4 notes		105.6	-	1.6	107.2
B5 notes		61.6	-	0.5	62.1
B6 notes		289.7	-	3.7	293.4
European Investment Bank loan		213.3	(2.3)	-	211.0
KfW IPEX-Bank GmbH loan		35.0	-	-	35.0
Local authority loans		1.4	(0.1)	-	1.3
		2,801.1	(12.6)	13.5	2,802.0

[1] Moody's/S&P/Fitch.
[2] Guaranteed by MBIA rated B/B3/-. Class A bond ratings default to their higher underlying ratings of A3/A/A.
[3] The class A6 notes (£100m) were issued at a fixed rate of 4.473% but swapped into an effective index-linked rate of 1.35%. Cumulative indexation of £24.2m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 January 2013 £m	Deposits £m	Payments £m	Closing balance 31 March 2013 £m
Free cash balances:				
Receipts account	54.7	178.4	(158.9)	74.2
Payments account	47.5	368.9	(395.7)	20.7
Other bank accounts	11.0	838.7	(846.9)	2.8
	113.2	1,386.0	(1,401.5)	97.7
Debt service payments account:				
Debt service ledger	70.4	39.3	(58.5)	51.2
Insurance proceeds ledger	8.5	-	-	8.5
	78.9	39.3	(58.5)	59.7
Capex reserve account	-	54.0	(54.0)	-
	192.1	1,479.3	(1,514.0)	157.4

Interest cover ratio (ICR) – 5 years to 31 March 2015 (based on 2013 business plan)

(See important notice at the front of the document)	Actual			Projections	
	Year to 31 March 2011 £m	Year to 31 March 2012 £m	Year to 31 March 2013 £m	Year to 31 March 2014 £m	Year to 31 March 2015 £m
Income	677	695	716	730	763
Operating expenditure	(265)	(273)	(295)	(299)	(301)
Pre capital maintenance cash flows	412	422	421	431	462
Capital maintenance expenditure	(97)	(169)	(203)	(135)	(137)
Post capital maintenance cash flows	315	253	219	296	325
Net interest (excluding indexation)	(132)	(140)	(102)	(130)	(133)
Capital expenditure	(131)	(84)	(122)	(177)	(180)
Pre-financing cash flows	52	29	(5)	(11)	12
Interest payable on senior debt:					
Finance leases	(2)	9	(4)	33	32
Class A	41	39	40	40	40
Class B	37	40	41	42	43
MBIA financial guarantee fees	4	4	4	5	5
Interest rate swaps	41	45	12	9	9
Authorised loans	2	4	12	4	7
Less interest receivable	(4)	(5)	(7)	(3)	(3)
Total net senior debt interest	120	136	98	130	133
Interest payable on junior debt:					
Class C (including £6m premium on early redemption)	9	-	-	-	-
Other	3	4	4	-	-
Total interest payable	132	140	102	130	133
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.4	3.1	4.3	3.3	3.5
Total interest cover pre capital maintenance	3.1	3.0	4.1	3.3	3.5
Senior interest cover post capital maintenance (trigger 1.0)	2.6	1.9	2.2	2.3	2.4
Total interest cover post capital maintenance	2.4	1.8	2.2	2.3	2.4

Regulatory asset ratio (RAR) – 5 years to 31 March 2015 (based on 2013 business plan)

(See important notice at the front of the document)	Actual As at 31 March 2011 £m	Actual As at 31 March 2012 £m	Actual As at 31 March 2013 £m	Projections As at 31 March 2014 £m	Projections As at 31 March 2015 £m
Senior gross debt:					
Finance leases	742	734	616	601	559
Class A	922	950	969	984	1,004
Class B	796	949	969	994	1,013
Net interest accrual on senior debt	56	102	99	44	47
Authorised loans	248	260	246	308	392
Total senior gross debt	2,764	2,995	2,899	2,931	3,015
Less: cash balances and authorised investments	98	(301)	(157)	(114)	(166)
Total senior net debt	2,666	2,694	2,742	2,817	2,849
Local authority loans	2	2	1	1	1
Total net debt	2,668	2,696	2,744	2,818	2,850
Regulatory capital value (RCV)	3,980	4,171	4,344	4,429	4,745[1]
Reserves (RCV less total net debt)	1,312	1,475	1,600	1,661	1,895
Regulatory asset ratio:					
RAR (Senior) (trigger 90%; default 95%)	67%	65%	63%	63%	60%
RAR (Total debt)	67%	65%	63%	63%	60%

[1] RCV at 31 March 2015 anticipates an adjustment incorporating an assumed movement in COPI relative to RPI during the 5 year period.

Income statement (unaudited)

	3 months ended 31 March 2013 £m	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Revenue	176.1	716.4	695.0
Operating expenditure	(81.7)	(295.0)	(272.5)
EBITDA	94.4	421.4	422.5
Infrastructure renewals expenditure	4.5	(79.4)	(81.1)
Depreciation	(39.7)	(158.7)	(150.0)
Operating profit	59.2	183.3	191.5
Interest payable	(39.1)	(102.4)	(137.3)
Indexation of index-linked debt	(13.5)	(38.9)	(52.4)
Interest receivable	0.3	7.0	4.9
Fair value losses on financial instruments	(54.6)	(61.2)	(137.6)
Loss before tax	(47.7)	(12.2)	(131.0)
Tax	0.4	0.4	3.8
Deferred tax			
Current year movements	13.3	(0.4)	35.4
Adjustments in respect of prior periods	(0.6)	(0.6)	(30.3)
Less: movement on deferred tax asset in pension scheme	0.5	0.9	(6.2)
Effect of change in expected tax rate	2.2	13.5	24.3
Taxation	15.8	13.8	27.0
(Loss)/profit after tax	(31.9)	1.6	(104.0)

Statement of comprehensive income (unaudited)

	3 months ended 31 March 2013 £m	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
(Loss)/gain for the period	(31.9)	1.6	(104.0)
Actuarial gain/(loss) in the pension scheme	1.9	2.3	(25.8)
Movement on related deferred tax asset	(0.5)	(0.9)	6.2
Total recognised (losses)/gains for the period	(30.5)	3.0	(123.6)

Balance sheet (unaudited)

	At 31 March 2013		At 31 March 2012	
	£m	£m	£m	£m
Fixed assets		3,402.2		3,298.4
Current assets and liabilities:				
Debtors and prepayments	533.7		518.2	
Creditors and accruals	(610.4)		(591.4)	
		(76.7)		(73.2)
Total assets less current liabilities		3,325.5		3,225.2
Financing liabilities:				
Bonds	(1,938.4)		(1,899.4)	
Finance leases	(616.3)		(734.1)	
Bank loans (EIB, KfW)	(246.0)		(259.5)	
Other	(1.3)		(1.6)	
	(2,802.0)		(2,894.6)	
Net interest accrual	(98.8)		(101.9)	
	(2,900.8)		(2,996.5)	
Cash and cash equivalents:				
Receipts account	74.2		67.7	
Payments account	20.7		183.1	
Capex reserve account	-		(15.0)	
Debt service payments account	59.7		73.2	
Other bank accounts	2.8		(8.5)	
	157.4		300.5	
Net debt		**(2,743.4)**		**(2,696.0)**
Derivative financial instruments		(359.2)		(298.0)
Provisions for liabilities and charges		(53.4)		(52.3)
Net assets before deferred tax		**169.5**		**178.9**
Deferred tax		(243.9)		(256.2)
Net assets		**(74.4)**		**(77.3)**

Compliance certificate

To: Deutsche Trustee Company Limited **13 June 2013**

Dear Sirs

Common Terms Agreement dated 10 May 2001 between Dŵr Cymru Cyfyngedig, ("DCC") and the Deutsche Trustee Company Limited (the "DCC Security Trustee" and the "Issuer Security Trustee") ("the Common Terms Agreement")

Capitalised terms not defined in this certificate have the meaning given to them in the Common Terms Agreement.

We refer to the Common Terms Agreement and pursuant to Paragraph 1.5 of Schedule 3 of that Agreement hereby confirm that as of today's date, DCC is in compliance with the RAR, the Historical RAR, the Historical Senior RAR, the Projected RAR, the Projected Senior RAR and the Historical ICR, the Historical Senior ICR and the Projected Senior ICR (together the "**Ratios**").

The calculations of the ratios are set out on pages 9 and 10 of the Investor Report issued on today's date.

We also confirm that, in the period from 8 November 2012 (being the date of the last published Compliance Certificate) to 13 June 2013 that:

(a) no DCC Potential Event of Default, DCC Event of Default, Potential Trigger event or Trigger Event has occurred; and

(b) DCC's insurances are being maintained in accordance with:

  (i) Paragraph 4.2.1 of Schedule 3 of the Common Terms Agreement; and
  (ii) the provisions of each DCC Finance Lease

Yours faithfully
For and on behalf of
Dŵr Cymru Cyfyngedig

C A Jones — Director

N C Annett — Director