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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 March 2014

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).

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General overview and business update

This quarterly Investor Report covers the three month period ending 31 March 2014. 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 2014 £m	Year to 31 March 2013 £m	Change
Revenue	737	716	+3%
Operating costs	296	295	+1%
EBITDA (before infrastructure renewals expenditure)	**441**	**421**	
Net interest (excluding indexation)	113	96	
Capital expenditure (before grants and contributions)	354	338	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2014 is broadly in line with the comparative period last year – Ofwat's RPI + K price increases are largely responsible for the rise in income of some £2.1 million, offset by an additional £2 million of operating costs.

Revenue in the year to 31 March 2014 was £737 million, as compared to £716 million in the year to 31 March 2013. The increase includes the impact of an overall price increase of 2.6% (being the RPI+K adjustment allowed by Ofwat). During the period, 17,000 domestic customers switched to metered charging (2013: 15,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £296 million (2013: £295 million) and have increased by 1% principally due to increased energy costs, a higher bad debt charge, additional expenditure necessary to maintain operations during the failure of the Daniel Contracting Limited business, partially offset by an accounting credit relating to the defined benefit pension scheme and on-going operating cost efficiencies.

Net interest payable in the period (excluding fair value movements) was £154 million (2013: £134 million), including an indexation charge on index-linked debt of £38 million (2013: £38 million).

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

£m	**31 March 2014**	**31 March 2013**
Net debt	2,821	2,744
Regulatory capital value	4,468	4,344
'Financial reserves'	**1,647**	**1,600**
Regulatory gearing	62.9%	63.0%

On Glas Cymru's acquisition of Welsh Water in May 2001, gearing stood at 93%. Since then the financial position of the group has improved steadily, such that gearing has fallen to 62.9% as at 31 March 2014 and 'financial reserves' (RCV less net debt) are over £1.6 billion.

General overview and business update cont'd

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £354 million before grants and contributions (2013: £338 million). Of that £354 million, £185 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £292 million is classed as capital maintenance. We have invested £1,108 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 shown in the table below. All ratings have stable outlook.

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/Ba2/-), 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. On 29 January 2014, Fitch revised the UK Water Sector outlook to negative following guidance related to risk and rewards published by Ofwat for the 2014 price review.

Financing and liquidity

As at 31 March 2014, undrawn credit facilities and cash (excluding the debt service reserve account deposits of £22 million) amounted to £212 million, including undrawn revolving credit of £140 million. 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.

On 31 March 2014, the company terminated a finance lease with BNP Paribas for £31 million being the book value of the lease at that date. On 19 May 2014 the company entered into a new £60 million five year revolving credit facility with BNP Paribas with an option to continue for a further year. The existing £30 million revolving credit facility with BNP Paribas was cancelled on the same day.

General overview and business update cont'd

Account Bank Agreements

Both Dŵr Cymru Cyfyngedig (DCC) and Dŵr Cymru (Financing) Limited ("Issuer") have account bank agreements with National Westminster Bank plc ("Natwest"). Under these agreements, Natwest is required to hold a minimum short term rating of at least two of A1/P1/F1 (S&P/Moody's/Fitch). On 4 April we secured the consent of secured creditors to continue with the appointment of Natwest as our bank account, subsequent to an annual rating review by MBIA.

2014 Price Review

On 30 May 2014 Ofwat published its draft determination for Dŵr Cymru (http://www.ofwat.gov.uk/pricereview/pr14/draftdet/). The draft determination sets out the proposed prices the company can charge its customers for water and sewerage services from 2015-2020. Under the plans submitted, Dŵr Cymru will decrease customer bills by 5% in real terms over the next price control period 2015-2020 while investing more than £2.5 billion to maintain and improve services for customers and the environment.

Consultation on the draft determination will close on 4 July and representations from stakeholders are welcome. Final determinations for all companies will be published in December 2014.

Investors

The company's annual investor meeting will be held at the offices of Royal Bank of Scotland Plc, 3rd Floor, 250 Bishopsgate, London EC2M 4AA at 11am on Friday 18 July 2014. Please contact Mary Jones or John Rees (telephone 01443 452353) or send an e-mail request to investors@dwrcymru.com if you would like to attend.

Consolidated cash flow

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Revenue	736.5	716.4
Less: operating expenses	(296.4)	(295.0)
Earnings before interest, taxation, depreciation and amortisation	440.1	421.4
Working capital movements	24.4	27.5
Non bond-related interest paid	(2.6)	(2.4)
Interest capitalised in accordance with IAS 23	(7.9)	(6.5)
Interest received	6.4	7.3
Net operating cash flow and interest received	460.4	447.3
New borrowings:		
European Investment Bank	75.0	-
Utilisation of reserves:		
Cash transferred to capex reserve	(161.2)	(219.3)
Cash utilised from capex reserve	111.3	204.3
Capital expenditure:		
Net profit on disposal of assets	0.6	0.2
Infrastructure renewals expenditure	(72.7)	(77.8)
Non-infrastructure maintenance	(113.9)	(120.5)
Enhancement expenditure	(156.6)	(119.7)
Net cash flow after capital expenditure, new borrowings and reserve drawings	142.9	114.5
Transfer to debt service payments account	(159.5)	(127.4)
Principal repayments	(58.7)	(131.6)
Net cash flow after debt service	(75.2)	(144.5)
Free cash balances brought forward	97.7	242.2
Free cash balances carried forward	22.5	97.7

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2014 £m	Amount accrued 31 March 2014 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	-
Interest on senior debt:		
Finance lease interest payments	5.8	49.2
A1 interest payments	21.1	-
A4 interest payments	6.8	-
A5 interest payments	2.2	-
A6 interest payments	4.5	-
B1 interest payments	22.4	-
B3 interest payments	4.1	-
B4 interest payments	2.4	-
B5 interest payments	0.4	-
B6 interest payments	2.8	-
European Investment Bank loan interest payments	0.3	0.6
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	0.8	0.2
	73.9	50.0
Interest rate swaps	21.0	-
Senior interest payments	94.9	50.0
Total debt service payments	94.9	50.0

Glas notes principal balance reconciliation

	Credit rating[1]	Opening balance 1 January 2014 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2014 £m
Finance leases		613.6	-	(42.4)	-	571.2
Class A bonds[2]						
A1 notes	A3/A/A	350.0	-	-	-	350.0
A4 notes		382.3	-	-	3.1	385.4
A5 notes		122.5	-	-	2.9	125.4
A6 notes[3]		127.0	-	-	1.1	128.1
Class B bonds						
B1 notes	A3/A/A	325.0	-	-	-	325.0
B3 notes		185.5	-	-	1.5	187.0
B4 notes		108.1	-	-	2.5	110.6
B5 notes		63.5	-	-	0.5	64.0
B6 notes		297.8	-	-	3.7	301.5
European Investment Bank loan		274.7	-	(2.1)	-	272.6
KfW IPEX-Bank GmbH loan		35.0	-	-	-	35.0
Local authority loans		1.2	-	(0.1)	-	1.1
		2,886.2	-	(44.6)	15.3	2,856.9

[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 £27.0m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 January 2014 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2014 £m
Free cash balances:					
Receipts account	63.7	-	259.2	(241.0)	81.9
Payments account	(12.0)	-	396.1	(448.8)	(64.7)
Other bank accounts	3.1	0.7	1,192.5	(1,191.0)	5.3
	54.8	0.7	1,847.8	(1,880.8)	22.5
Debt service payments account:					
Debt service ledger	64.4	-	43.9	(94.9)	13.4
Insurance proceeds ledger	8.5	-	-	-	8.5
	72.9		43.9	(94.9)	21.9
Capex reserve account	75.0	-	2.7	(27.8)	49.9
	202.7	0.7	1,894.4	(2,003.5)	94.3

Interest cover ratio (ICR) – 5 years to 31 March 2015 (based on 2014 business plan)

(See important notice at the front of the document)	Actual Year to 31 March 2011 £m	Actual Year to 31 March 2012 £m	Actual Year to 31 March 2013 £m	Actual Year to 31 March 2014 £m	Projection Year to 31 March 2015 £m
Income	677	695	716	737	742
Operating expenditure	(265)	(273)	(295)	(296)	(304)
Pre capital maintenance cash flows	412	422	421	441	438
Capital maintenance expenditure	(97)	(169)	(203)	(185)	(174)
Post capital maintenance cash flows	315	253	219	256	264
Net interest (excluding indexation)	(132)	(140)	(102)	(124)	(135)
Capital expenditure	(131)	(84)	(122)	(155)	(156)
Pre-financing cash flows	52	29	(5)	(23)	(27)
Interest payable on senior debt:					
Finance leases	(2)	9	(4)	5	31
Class A	41	39	40	44	40
Class B	37	40	41	42	43
MBIA financial guarantee fees	4	4	4	4	5
Interest rate swaps	41	45	12	29	13
Authorised loans	2	4	12	2	7
Less interest receivable	(4)	(5)	(7)	(6)	(4)
Total net senior debt interest	120	136	98	120	135
Interest payable on junior debt:					
Class C (including £6m premium on early redemption)	9	-	-	-	-
Other	3	4	4	4	-
Total interest payable	132	140	102	124	135
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.4	3.1	4.3	3.7	3.2
Total interest cover pre capital maintenance	3.1	3.0	4.1	3.6	3.5
Senior interest cover post capital maintenance (trigger 1.0)	2.6	1.9	2.2	2.1	1.9
Total interest cover post capital maintenance	2.4	1.8	2.2	2.0	2.5

Regulatory asset ratio (RAR) – 5 years to 31 March 2015 (based on 2014 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	Actual As at 31 March 2014 £m	Projection As at 31 March 2015 £m
Senior gross debt:					
Finance leases	742	734	616	571	563
Class A	922	950	969	989	1,004
Class B	796	949	969	988	1,013
Net interest accrual on senior debt	56	102	99	58	46
Authorised loans	248	260	246	307	367
Total senior gross debt	2,764	2,995	2,899	2,914	2,993
Less: cash balances and authorised investments	98	(301)	(157)	(94)	(101)
Total senior net debt	2,666	2,694	2,742	2,819	2,892
Local authority loans	2	2	1	1	1
Total net debt	2,668	2,696	2,744	2,821	2,893
Regulatory capital value (RCV)	3,980	4,171	4,344	4,468	4,802[1]
Reserves (RCV less total net debt)	1,312	1,475	1,600	1,647	1,909
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 five-year period.

Income statement (unaudited)

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Revenue	736.5	716.4
Operating expenditure	(296.4)	(295.0)
EBITDA	440.1	421.4
Infrastructure renewals expenditure	(71.8)	(79.4)
Depreciation	(163.8)	(158.6)
Operating profit	204.5	183.4
Interest payable	(121.9)	(102.5)
Indexation of index-linked debt	(38.7)	(38.8)
Interest receivable	6.3	7.0
Fair value gains on financial instruments	94.2	(61.2)
Profit before tax	144.4	(12.1)
Taxation	10.8	13.8
Profit after tax	155.2	1.7

Statement of comprehensive income (unaudited)

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Profit for the period	155.2	1.7
Actuarial gain in the pension scheme	24.9	2.3
Movement on related deferred tax asset	(5.8)	(0.9)
Total recognised gains for the period	174.3	3.1

Balance sheet (unaudited)

	At 31 March 2014 £m	At 31 March 2014 £m	At 31 March 2013 £m	At 31 March 2013 £m
Fixed assets		3,526.2		3,402.2
Current assets and liabilities:				
Debtors and prepayments	534.4		533.7	
Creditors and accruals	(615.7)		(610.4)	
		(81.3)		(76.7)
Total assets less current liabilities		3,444.9		3,325.5
Financing liabilities:				
Bonds	(1,976.9)		(1,938.4)	
Finance leases	(571.3)		(616.3)	
Bank loans (EIB, KfW)	(307.6)		(246.0)	
Other	(1.1)		(1.3)	
	(2,856.9)		(2,802.0)	
Net interest accrual	(58.5)		(98.8)	
	(2,915.4)		(2,900.8)	
Cash and cash equivalents:				
Receipts account	81.9		74.2	
Payments account	(64.7)		20.7	
Capex reserve account	49.9		-	
Debt service payments account	21.9		59.7	
Other bank accounts	5.3		2.8	
	94.3		157.4	
Net debt		**(2,821.1)**		**(2,743.4)**
Derivative financial instruments		(265.0)		(359.2)
Provisions for liabilities and charges		(17.6)		(53.4)
Net assets before deferred tax		**341.2**		**169.5**
Deferred tax		(241.3)		(243.9)
Net assets/(liabilities)		**99.9**		**(74.4)**

Compliance Certificate

To: Deutsche Trustee Company Limited **12 June 2014**

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 six months to 31 March 2014 that:

(a) Save as set out below in respect of the technical consequences of the rating downgrade of National Westminster Bank plc (DCC's account bank) in November 2013, 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

On 7 November 2013 the credit ratings of The Royal Bank of Scotland ("RBS") and its subsidiary National Westminster Bank ("Nat West") were downgraded by Standard & Poor's to A- (long-term) and A-2 (short-term). Nat West is the Account Bank under the DCC Account Bank Agreement dated 10 May 2001. As a result of the downgrade, Nat West ceased to meet the Minimum Short-Term Rating requirement of the Common Terms Agreement and DCC was under an obligation to appoint a substitute account bank in its place forthwith.

The following waivers and amendments were subsequently agreed by the DCC Security Trustee following approval by the DCC secured creditors:

(a) A STID proposal on 6 December 2013 implemented a 90 day waiver period (including in respect of any DCC Potential Event of Default which may or may not have occurred consequently) to allow the continued use of Nat West as DCC's Account Bank, during which a remedy could be sought. The waiver period extended to 6 March 2014 and was subsequently extended from an initial 90 days, by one month, to 6 April 2014
(b) A STID Proposal approved on 4 April 2014 amended the Common Terms Agreement and other documents to approve the continued use of Nat West as Account Bank subject to an Annual Rating Review by the Financial Guarantor.
(c) On 9 June 2014 the Financial Guarantor carried out an Annual Rating Review and approved the continued use of Nat West as DCC's Account Bank, subject to specified ongoing rating thresholds which will be reviewed on an annual basis.

Yours faithfully
For and on behalf of
Dŵr Cymru Cyfyngedig

C A Jones	P D Perry
Director	Director