



Investor Report

For the quarter ended 31 March 2015

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General overview and business update

This quarterly Investor Report covers the three month period ending 31 March 2015. 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 2015 £m	Year to 31 March 2014 £m	Change
Revenue	753	737	+2%
Operating costs	295	296	
EBITDA (before IRE and exceptional items)	458	441	
Exceptional items	19	-	
Net interest (excluding indexation)	116	116	
Capital expenditure (before grants and contributions)	380	354	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2015 (excluding exceptional items) is £17 million higher than the comparative period last year – Ofwat's RPI + K price increases are largely responsible for the rise in income of some £16 million.

Revenue in the year to 31 March 2015 was £753 million, as compared to £737 million in the year to 31 March 2014. The increase includes the impact of an overall price increases of 2.05% (being the RPI+K adjustment allowed by Ofwat).

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £295 million (2014: £296 million) are in line with the same period last year; the impact of general inflation has been offset by business rates rebates, savings arising from IT contract insourcing and on-going operational cost efficiencies. Exceptional items principally comprise a provision for restructuring costs to be incurred during AMP6, the regulatory revenue control period which runs from April 2015 to March 2020.

Net interest payable in the period (excluding fair value movements) was £145 million (2014: £154 million), including an indexation charge on index-linked debt of £29 million (2014: £38 million). An accounting profit of £8 million has been recognised 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 2015	31 March 2014
Net debt	2,884	2,821
Regulatory capital value	4,831	4,468
'Financial reserves'	1,947	1,647
Regulatory gearing	59.7%	63.1%

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 59.7% as at 31 March 2015 and 'financial reserves' (RCV less net debt) are approaching £2 billion.

General overview and business update cont'd

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £380 million before grants and contributions (2014: £354 million). Of that £380 million, £167 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £308 million is classed as capital maintenance. We have invested £1,574 million into our AMP5 capital programme 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 for the five years to 31 March 2015 and up to 31 March 2020. These historic and 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 27 February 2015 Moody’s affirmed the A3 rating of the company’s class A and B bonds and placed the bonds on ‘positive outlook’. The change in outlook is driven by Welsh Water’s commitment to a more prudent financial policy targeting gearing of 60% for the next five years, compared with 70% since 2011.

The ratings of our Class A and B bonds have been affirmed as A(stable)/A(stable) by Fitch, Standard and Poor’s on 31 July 2014 and 1 September 2014 respectively.

General overview and business update cont'd

Financing and liquidity

As at 31 March 2015, undrawn credit facilities and cash (excluding the debt service reserve account deposits of £20 million) amounted to £338 million, including undrawn EIB and revolving credit facilities of £190 million. In line with prudent policies approved by the board, cash is invested in AAA-rated liquidity funds and bonds, Royal Bank of Scotland as the group's account bank and banks subject to minimum short-term rating criteria of A1/P1/F1.

Financing and liquidity cont'd

Dŵr Cymru (Financing) Limited has a special liquidity facility of £135 million which it is required to maintain in order to meet certain group interest and other obligations that cannot be funded through the operating cash flow of the group, in the event of a standstill being declared by the Security Trustee. The facility is split equally between four providers: BNP Paribas, HSBC, J P Morgan and National Australia Bank.

2014 Price Review

On 12 December Dŵr Cymru received its Final Determination from Ofwat on the company's business plan for 2015-2020. The Final Determination sets the price limit that the company can charge customers for their water and wastewater services between 2015 and 2020 and also the service targets that the company is expected to deliver.

Dŵr Cymru's business plan committed to keep average household bills at least 1% below inflation between 2015 and 2020 whilst also investing £1.5 billion (in 2012/13 prices) in its extensive network of assets and help up to 100,000 customers who struggle to pay their bills.

The Board has also decided to set a gearing target (being the ratio of net debt to regulatory capital value) of 60% for the next five years to 31 March 2020 ("AMP6"). The reduction from the previously published target of 70% to 60% primarily reflects the impact on cash coverage ratios arising from the reduction in the return on capital to 3.6% for the wholesale business.

Investors

The company's annual investor meeting will be held at JP Morgan, 60 Embankment, London EC4Y 0JP on Thursday 16 July 2015. Please contact Mary Jones on 01443 425353 or send an e-mail request to investors@dwrcymru.com if you would like to attend.

Consolidated cash flow

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Revenue	752.5	736.5
Less: operating expenses (including exceptional items)	(314.2)	(296.4)
Earnings before interest, taxation, depreciation and amortisation	438.3	440.1
Working capital movements	39.4	24.4
Non bond-related interest paid	(3.0)	(2.6)
Interest capitalised in accordance with IAS 23	(6.0)	(7.9)
Interest received	3.1	6.4
Net operating cash flow and interest received	471.8	460.4
New borrowings		
European Investment Bank	160.0	75.0
Utilisation of reserves:		
Cash transferred to capex reserve	(208.4)	(161.2)
Cash utilised from capex reserve	123.3	111.3
Capital expenditure:		
Net profit on disposal of assets	0.1	0.6
Infrastructure renewals expenditure	(56.1)	(72.7)
Non-infrastructure maintenance	(106.4)	(113.9)
Enhancement expenditure	(206.6)	(156.6)
Net cash flow after capital expenditure, new borrowings and reserve drawings	177.7	142.9
Transfer to debt service payments account	(126.7)	(159.5)
Principal repayments	(80.2)	(58.7)
Net cash flow after debt service	(29.2)	(75.2)
Free cash balances brought forward	22.5	97.7
Free cash balances carried forward	(6.7)	22.5

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2015 £m	Amount accrued 31 March 2015 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	-
Interest on senior debt:		
Finance lease interest payments	3.3	52.8
A1 interest payments	21.1	-
A4 interest payments	6.9	-
A5 interest payments	2.3	-
A6 interest payments	4.5	-
B1 interest payments	22.5	-
B3 interest payments	4.2	-
B4 interest payments	2.5	-
B5 interest payments	0.5	-
B6 interest payments	2.8	-
European Investment Bank loan interest payments	0.3	0.9
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	0.7	4.9
	71.8	58.6
Interest rate swaps	17.5	-
Total debt service payments	89.3	58.6

Glas notes principal balance reconciliation

	Credit rating ¹	Opening balance 1 January 2015 £m	New issues	Repayment £m	Indexation £m	Closing balance 31 March 2015 £m
Finance leases		516.2	-	(9.0)	-	507.2
Class A bonds²						
A1 notes	A3/A/A	350.0	-	-	-	350.0
A4 notes		392.0	-	-	3.1	395.1
A5 notes		124.7	-	-	3.9	128.6
A6 notes ³		130.3	-	-	1.0	131.3
Class B bonds						
B1 notes	A3/A/A	325.0	-	-	-	325.0
B3 notes		190.2	-	-	1.5	191.7
B4 notes		110.1	-	-	3.3	113.4
B5 notes		65.1	-	-	0.5	65.6
B6 notes		308.5	-	-	(3.6)	304.9
European Investment Bank loan		338.9	80.0	(2.3)	-	416.6
KfW IPEX-Bank GmbH loan		35.0	-	-	-	35.0
Local authority loans		1.0	-	(0.1)	-	0.9
		2,887.0	80.0	(11.4)	9.7	2,965.3

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 £31.3m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 January 2015 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2015 £m
Free cash balances:					
Receipts account	64.1	-	184.0	(167.8)	80.3
Payments account	(69.6)	-	403.9	(426.7)	(92.4)
Other bank accounts	5.5	0.9	660.9	(661.8)	5.5
	-	0.9	1,248.8	(1,256.3)	(6.6)
Debt service payments account:					
Debt service ledger	68.1	-	32.3	(89.3)	11.1
Insurance proceeds ledger	8.5	-	-	-	8.5
	76.6	-	32.3	(89.3)	19.6
Capex reserve account	80.0	-	91.2	(36.2)	135.0
	156.6	0.9	1,372.3	(1,381.8)	148.0

Interest cover ratio (ICR) – 5 years to 31 March 2015

(See important notice at the front of the document)

	Actual				
	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	737	753
Operating expenditure (excluding exceptional items)	(265)	(273)	(295)	(296)	(295)
Pre capital maintenance cash flows	412	422	421	441	458
Capital maintenance expenditure	(97)	(169)	(202)	(185)	(167)
Post capital maintenance cash flows	315	253	219	256	291
Net interest (excluding indexation and capitalisation)	(132)	(140)	(102)	(124)	(122)
Capital expenditure	(131)	(84)	(122)	(155)	(197)
Pre-financing cash flows	52	29	(5)	(23)	(28)
Interest payable on senior debt:					
Finance leases	(2)	9	(4)	5	(3)
Class A	41	39	40	44	44
Class B	37	40	41	42	42
MBIA financial guarantee fees	4	4	4	4	4
Interest rate swaps	41	45	12	29	32
Authorised loans	2	4	12	2	3
Less interest receivable	(4)	(5)	(7)	(6)	(3)
Total net senior debt interest	119	136	98	120	119
Interest payable on junior debt:					
Class C (including £6m premium on early redemption)	9	-	-	-	-
Other	4	4	4	4	3
Total interest payable	132	140	102	124	122
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.4	3.1	4.3	3.7	3.8
Total interest cover pre capital maintenance	3.1	3.0	4.1	3.6	3.8
Senior interest cover post capital maintenance (trigger 1.0)	2.6	1.9	2.2	2.1	2.4
Total interest cover post capital maintenance	2.4	1.8	2.2	2.0	2.4

Interest cover ratio (ICR) – 5 years to 31 March 2020

(See important notice at the front of the document)

	Projection				
	Year to 31 March 2016 £m	Year to 31 March 2017 £m	Year to 31 March 2018 £m	Year to 31 March 2019 £m	Year to 31 March 2020 £m
Income	748	758	771	784	799
Operating expenditure	(302)	(305)	(307)	(305)	(310)
Pre capital maintenance cash flows	446	453	464	479	489
Capital maintenance expenditure	(198)	(206)	(217)	(220)	(227)
Post capital maintenance cash flows	248	247	247	259	262
Net interest (excluding indexation and capitalisation)	(119)	(124)	(128)	(131)	(135)
Capital expenditure	(135)	(148)	(153)	(110)	(101)
Transfers to 'customer reserves' ¹	(68)	(52)	(44)	(95)	(105)
Pre-financing cash flows	(74)	(77)	(78)	(77)	(79)
Interest payable on senior debt:					
Finance leases	6	8	8	10	11
Class A	41	42	42	42	43
Class B	42	43	43	44	44
MBIA financial guarantee fees	6	6	6	6	6
Interest rate swaps	22	22	20	18	17
Authorised loans	6	6	13	15	18
Less interest receivable	(4)	(3)	(4)	(4)	(4)
Total interest payable	119	124	128	131	135
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	3.7	3.7	3.6	3.7	3.6
Interest cover post capital maintenance (trigger 1.0)	2.1	2.0	1.9	1.9	1.9

¹ This is 'headroom' to balance gearing to the Glas Board's target of 60% (see page 10). It represents amounts that may be returned to customers or used to fund additional investment for the benefit of customers.

Regulatory asset ratio (RAR) – 5 years to 31 March 2015

(See important notice at the front of the document)

	Actual				
	As at 31 March 2011 £m	As at 31 March 2012 £m	As at 31 March 2013 £m	As at 31 March 2014 £m	As at 31 March 2015 £m
Senior gross debt:					
Finance leases	742	734	616	571	507
Class A	922	950	969	989	1,005
Class B	796	949	969	988	1,001
Net interest accrual on senior debt	56	102	99	58	67
Authorised loans	248	260	246	307	451
Total senior gross debt	2,764	2,995	2,899	2,914	3,031
Less: cash balances and authorised investments	98	(301)	(157)	(94)	(148)
Total senior net debt	2,666	2,694	2,742	2,819	2,883
Local authority loans	2	2	2	2	1
Total net debt	2,668	2,696	2,744	2,821	2,884
Regulatory capital value (RCV)	3,980	4,171	4,344	4,468	4,831
Reserves (RCV less total net debt)	1,312	1,475	1,600	1,647	1,947
Regulatory asset ratio:					
RAR (Senior) (trigger 90%; default 95%)	67%	65%	63%	63%	60%
RAR (Total debt)	67%	65%	63%	63%	60%

Regulatory asset ratio (RAR) – 5 years to 31 March 2020

(See important notice at the front of the document)

	Projection				
	As at 31 March 2016 £m	As at 31 March 2017 £m	As at 31 March 2018 £m	As at 31 March 2019 £m	As at 31 March 2020 £m
Senior gross debt:					
Finance leases	505	456	446	436	421
Class A	1,043	1,018	1,031	1,041	1,054
Class B	792	815	837	861	884
Net interest accrual on senior debt	48	50	51	51	53
Authorised loans	708	869	964	1,065	1,168
Total senior gross debt	3,096	3,208	3,329	3,454	3,580
Less: cash balances and authorised investments	(108)	(100)	(100)	(100)	(100)
Total net debt	2,988	3,108	3,229	3,354	3,480
Regulatory capital value (RCV)	4,981	5,182	5,388	5,591	5,796
Reserves (RCV less total net debt)	1,993	2,074	2,159	2,237	2,316
Regulatory asset ratio:					
RAR (trigger 90%; default 95%)	60%	60%	60%	60%	60%

Income statement

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Revenue	752.5	736.5
Operating expenditure	(294.7)	(296.4)
Exceptional items	(19.5)	-
EBITDA	438.3	440.1
Infrastructure renewals expenditure	(57.7)	(71.8)
Depreciation	(178.5)	(163.7)
Operating profit	202.1	204.6
Interest payable	(119.3)	(121.9)
Indexation of index-linked debt	(28.6)	(38.7)
Interest receivable	3.3	6.3
Fair value (losses)/gains on financial instruments	(157.1)	94.2
(Loss)/profit before tax	(99.6)	144.5
Taxation	19.5	10.8
(Loss)/profit after tax	(80.1)	155.3

Statement of comprehensive income

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Profit for the period	(80.1)	155.3
Actuarial (loss)/gain in the pension scheme	(32.2)	24.9
Movement on related deferred tax asset	5.9	(5.8)
Total recognised (losses)/gains for the period	(106.4)	174.4

Balance sheet

	At 31 March 2015		At 31 March 2014	
	£m	£m	£m	£m
Fixed assets		3,679.0		3,526.2
Current assets and liabilities:				
Debtors and prepayments	539.1		534.4	
Creditors and accruals	(638.7)		(615.7)	
		(99.6)		(81.3)
Total assets less current liabilities		3,579.4		3,444.9
Financing liabilities:				
Bonds	(2,005.5)		(1,976.9)	
Finance leases	(507.2)		(571.3)	
Bank loans (EIB, KfW)	(451.6)		(307.6)	
Other	(0.9)		(1.1)	
	(2,965.2)		(2,856.9)	
Net interest accrual	(66.6)		(58.5)	
	(3,031.8)		(2,915.4)	
Cash and cash equivalents:				
Receipts account	80.3		81.9	
Payments account	(92.4)		(64.7)	
Capex reserve account	135.0		49.9	
Debt service payments account	19.6		21.9	
Other bank accounts	5.5		5.4	
	148.0		94.4	
Net debt		(2,883.8)		(2,821.0)
Derivative financial instruments		(422.1)		(265.0)
Provisions for liabilities and charges		(60.1)		(17.6)
Net assets before deferred tax		213.4		341.3
Deferred tax		(219.8)		(241.3)
Net (liabilities)/assets		(6.4)		100.0
<i>Net assets excluding derivative financial instruments</i>		415.7		365.0

Compliance certificate

To: Deutsche Trustee Company Limited

June 2015

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 to 12 of the Investor Report issued on today's date.

We also confirm that, in the period six months to 31 March 2015 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

P J Bridgewater
Director