



**Dŵr Cymru**  
**Welsh Water**

**Investor Report**

**For the quarter ended 31 December 2017**

# 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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References to the "Company", "Dŵr Cymru" and "Welsh Water" in this document relate to Dŵr Cymru Cyfyngedig, the sole operating company in the whole business securitisation formed by the Glas Cymru Anghyfngedig group. References to "Glas Cymru" and the "Group" refer, respectively, to Glas Cymru Anghyfngedig and the group of which it is the parent.

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## General overview and business update

This quarterly Investor Report covers the three-month period ended 31 December 2017. 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 is reported in the Company's annual report and accounts. These are available on the Company's website ([www.dwrcymru.com](http://www.dwrcymru.com)).

### Financial performance (unaudited)

Summary financial results for the nine months ended 31 December are as follows:

	<b>9 months to 31 Dec 2017 £m</b>	<b>9 months to 31 Dec 2016 £m</b>	<b>Change</b>
Turnover	571	563	+1%
Operating costs	(233)	(233)	-
<b>EBITDA</b> (before infrastructure renewals expenditure)	<b>338</b>	<b>330</b>	<b>+2%</b>
Net interest (excluding indexation)	(67)	(74)	
Capital expenditure (before grants and contributions)	(306)	(253)	

## General overview and business update (continued)

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the nine months to 31 December 2017 is £8 million higher than the comparative period last year.

Revenue in the nine months to 31 December 2017 was £571 million, as compared to £563 million in the nine months to 31 December 2016.

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £233 million (2016: £233 million) have remained consistent.

Net interest payable in the period (excluding fair value movements) was £110 million (2016: £95 million) including an indexation charge on index-linked debt of £43 million (2016: £21 million).

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

£m	31 December 2017	31 December 2016
Net debt	3,055	2,891
Regulatory capital value	5,445	5,155
'Financial reserves'	<b>2,390</b>	<b>2,264</b>
<b>Regulatory gearing</b>	56.1%	56.1%

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 56% as at 31 December 2017 and 'financial reserves' (RCV less net debt) have risen to nearly £2.4 billion.

## General overview and business update (continued)

### Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £306 million (2016: £253 million), in line with acceleration of investment in year three of the five-year capital programme.

### 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 2020. These projected ratios are derived from Glas Cymru's 2017 financial plan (which has been prepared by the Group) and are in the format specified by the CTA. On this basis, the prospective financial ratios are better than the "trigger" and "default" levels as defined in the CTA (see pages 8 and 9.) It should be noted that the Group'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 remain the highest in the UK utility sector. The ratings of the Company's bonds are shown in the table below.

Bond Class	Moody's	S&P	Fitch
A*	A2	A	A
B	A2	A	A

\*The credit ratings of the Company's Class A Bonds, which are guaranteed by Assured Guaranty (London) plc (BB/Baa1(pos)/NR), revert to their higher underlying ratings of A2/A/A by Moody's Investor Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch) respectively.

Between 14 July 2017 and 3 October 2017, all three rating agencies reaffirmed the ratings of the Company's bonds as A2/A/A with stable outlook.

### Financing and liquidity

As at 31 December 2017 undrawn credit facilities and cash (excluding debt service payments accounts deposits of £60 million) amounted to £461 million. This includes undrawn loans (European Investment Bank) and revolving credit facilities (RCF) totalling £420 million.

On 24 November 2017, the RCF increased by £20 million to £170 million.

On 17 January 2018 the Issuer announced a benchmark-sized GBP Class B bond transaction. The bond proceeds of £300 million was settled on 24 January 2018 with a maturity date of 31 March 2036 and a fixed coupon of 2.5%.

In line with prudent policies approved by the board, cash is invested in AAA-rated liquidity funds and bonds, the Royal Bank of Scotland (as the group's Account Bank) and additional banks subject to minimum short-term rating criteria of A1/P1/F1.

## Consolidated cash flow (unaudited)

	3 months ended 31 December 2017 £m	9 months ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Revenue	193.2	570.5	562.5
Less: operating expenses	(79.7)	(232.5)	(233.3)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>113.5</b>	<b>338.0</b>	<b>329.2</b>
Working capital movements	(9.4)	(20.8)	(21.1)
Non bond-related interest paid	(1.9)	(3.1)	(2.3)
Interest capitalised in accordance with IAS 23	(5.6)	(12.2)	(7.2)
Interest received	1.1	3.1	3.2
<b>Net operating cash flow and interest received</b>	<b>97.7</b>	<b>305.0</b>	<b>301.8</b>
<b>New borrowings</b>			
Authorised loan facility	-	60.0	70.0
<b>Utilisation of reserves:</b>			
Cash transferred to capex reserve	(35.4)	(101.5)	(78.6)
Cash utilised from capex reserve	35.4	100.9	81.1
Net cash utilised from other reserves	1.0	18.4	3.8
<b>Capital expenditure:</b>			
Net profit/(loss) on disposal of assets	0.2	1.2	(0.1)
Infrastructure renewals expenditure	(26.0)	(69.9)	(62.8)
Non-infrastructure maintenance	(58.9)	(171.1)	(78.0)
Capital expenditure	(22.5)	(66.3)	(97.0)
<b>Net cash flow after capital expenditure, new borrowings and reserve drawings</b>	<b>(8.5)</b>	<b>76.7</b>	<b>140.2</b>
Transfer to debt service payments account	(23.9)	(91.7)	(91.7)
Principal repayments	(4.7)	(18.0)	(16.9)
<b>Net cash flow after debt service</b>	<b>(37.0)</b>	<b>(33.0)</b>	<b>31.6</b>
Free cash balances brought forward	62.8	58.7	39.3
<b>Free cash balances carried forward</b>	<b>25.7</b>	<b>25.7</b>	<b>70.9</b>

## Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 31 December 2017 £m	Amount accrued 31 December 2017 £m
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	0.2	-
<b>Interest on senior debt:</b>		
Finance lease interest payments	-	50.2
A1 interest payments	-	15.9
A4 interest payments	-	3.6
A5 interest payments	-	1.2
A6 interest payments	-	1.0
B1 interest payments	-	16.9
B3 interest payments	-	2.2
B4 interest payments	-	1.3
B5 interest payments	-	0.2
B6 interest payments	-	1.5
European Investment Bank loan interest payments	0.8	0.3
KfW IPEX-Bank GmbH loan interest payments	0.2	-
Revolving credit facility commitment fees	0.1	0.1
	<u>1.3</u>	<u>94.4</u>
Interest rate swaps	2.6	-
<b>Total debt service payments</b>	<u>3.9</u>	<u>94.4</u>



## Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating <sup>1</sup>	Opening balance 1 October 2017 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 December 2017 £m
Finance leases		446.5	-	-	-	446.5
<b>Class A bonds<sup>2</sup></b>						
A1 notes	A2/A/A	350.0	-	-	-	350.0
A4 notes		409.7	-	-	7.8	417.5
A5 notes		131.3	-	-	4.5	135.8
A6 notes <sup>3</sup>		136.2	-	-	1.9	138.1
<b>Class B bonds</b>						
B1 notes	A2/A/A	325.0	-	-	-	325.0
B3 notes		199.0	-	-	3.8	202.8
B4 notes		115.8	-	-	4.0	119.8
B5 notes		68.0	-	-	1.3	69.3
B6 notes		325.6	-	-	(1.6)	324.0
European Investment Bank loans		513.9	-	(4.7)	2.3	511.5
Local authority loans		0.6	-	-	-	0.6
		3,021.6	-	(4.7)	24.0	3,040.9

<sup>1</sup> Moody's/S&P/Fitch.

<sup>2</sup> Guaranteed by Assured Guaranty (London) plc rated BB/Baa1(pos)/NR. Class A bond ratings default to their higher underlying ratings of A2/A/A.

<sup>3</sup> The class A6 notes (£100m) were issued at a fixed rate of 4.473% and swapped to an effective index-linked rate of 1.35%; cumulative indexation of £38.1m has been recognised in this table.

## Dŵr Cymru bank account movements (unaudited)

	Opening balance 1 October 2017 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 December 2017 £m
<b>Free cash balances:</b>					
Receipts account	62.2	-	241.4	(243.0)	60.6
Payments account	0.5	-	456.9	(492.4)	(35.0)
Other bank accounts	0.1	1.1	323.7	(324.8)	0.1
	<u>62.8</u>	<u>1.1</u>	<u>1,022.0</u>	<u>(1,060.2)</u>	<u>25.7</u>
<b>Debt service payments account:</b>					
Debt service ledger	39.7	-	23.9	(3.9)	59.7
<b>Capex reserve account</b>					
	-	-	35.4	(35.4)	-
<b>Customer payments account:</b>					
Customer rebate ledger	2.0	-	-	(1.0)	1.0
	<u>104.5</u>	<u>1.1</u>	<u>1,081.3</u>	<u>(1,100.5)</u>	<u>86.4</u>

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

(See important notice at the front of the document)

	Actual		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	750	747	759	785	806
Operating expenditure	(277)	(313)	(325)	(324)	(319)
<b>Pre capital maintenance cash flows</b>	<b>473</b>	<b>434</b>	<b>434</b>	<b>461</b>	<b>487</b>
Capital maintenance expenditure <sup>1</sup>	(208)	(229)	(182)	(182)	(182)
<b>Post capital maintenance cash flows</b>	<b>265</b>	<b>205</b>	<b>252</b>	<b>279</b>	<b>305</b>
Net interest (excluding indexation and capitalisation)	(113)	(120)	(131)	(143)	(144)
Capital expenditure <sup>1</sup>	(48)	(88)	(159)	(239)	(171)
Increase in 'customer reserves' <sup>2</sup>	(13) <sup>3</sup>	(36) <sup>3</sup>	(80)	(96)	(87)
<b>Pre-financing cash flows</b>	<b>91</b>	<b>(39)</b>	<b>(118)</b>	<b>(199)</b>	<b>(97)</b>
<b>Interest payable on senior debt:</b>					
Finance leases	6	3	10	12	12
Class A	44	44	42	42	43
Class B	42	42	43	44	44
Assured Guaranty (London) plc financial guarantee fees	4	4	5	5	5
Interest rate and RPI swaps	17	23	24	22	18
Authorised loans	6	8	10	21	26
Less interest receivable	(6)	(4)	(3)	(3)	(4)
<b>Total interest payable</b>	<b>113</b>	<b>120</b>	<b>131</b>	<b>143</b>	<b>144</b>
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.2	3.6	3.3	3.2	3.4
Interest cover post capital maintenance (trigger 1.0)	2.3	1.7	1.9	2.0	2.1

<sup>1</sup> The projected split between capital and maintenance expenditure assumes a steady level of maintenance activity from 2017 onwards.

<sup>2</sup> Projected values are forecast 'headroom' in the 2017 financial plan to balance gearing to the Glas Board's target of around 60% (see page 10). 'Headroom' represents amounts that may be returned to customers or used to fund additional investment for the benefit of customers.

<sup>3</sup> This figure is the total value of revenue foregone in order to fund social tariffs in the year and, in 2017, the value of discretionary expenditure for the benefit of customers.

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

	Actual			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
(See important notice at the front of the document)					
<b>Senior gross debt:</b>					
Finance leases	456	446	405	394	382
Class A	1,012	1,024	1,034	1,051	1,068
Class B	1,008	1,023	1,042	1,059	1,076
Net interest accrual on senior debt	55	57	59	60	61
Authorised loans (including assumed borrowings to balance gearing to around 60%)	407	462	685	885	1,012
<b>Total senior gross debt</b>	<b>2,938</b>	<b>3,012</b>	<b>3,225</b>	<b>3,449</b>	<b>3,599</b>
Less: cash balances and authorised investments	(92)	(65)	(100)	(100)	(100)
<b>Total net debt</b>	<b>2,846</b>	<b>2,947</b>	<b>3,125</b>	<b>3,349</b>	<b>3,499</b>
Regulatory capital value (RCV)	4,983	5,217	5,352	5,554	5,758
<b>Shadow RCV</b>	<b>4,950</b>	<b>5,184</b>	<b>5,368</b>	<b>5,629</b>	<b>5,881</b>
<b>Customer Reserves (Shadow RCV less total net debt)</b>	<b>2,104</b>	<b>2,237</b>	<b>2,243</b>	<b>2,280</b>	<b>2,382</b>
<b>Regulatory asset ratio (trigger 85%; default 95%)</b>					
RAR	57.1%	56.4%	58.4%	60.3%	60.8%
<b>Shadow RAR</b>	<b>57.5%</b>	<b>56.8%</b>	<b>58.2%</b>	<b>59.5%</b>	<b>59.5%</b>

For planning purposes, and for considering the level of headroom available for Customer Distributions, we have used a “Shadow RCV”. This is the RCV reported above as published by Ofwat in FD14 and uplifted by our inflation assumptions, adjusted for other factors we consider are likely to impact on the RCV during the period.

For the purpose of calculating regulatory gearing, cumulative indexation relating to the Class A6 notes (£100m) is included above; these were issued at a fixed rate of 4.473% and swapped to an effective index-linked rate of 1.35%.

## Income statement (unaudited)

	3 months ended 31 December 2017 £m	9 months ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Revenue	193.2	570.5	562.5
Operating expenditure	(79.7)	(232.5)	(233.3)
<b>EBITDA</b>	<b>113.5</b>	<b>338.0</b>	<b>329.2</b>
Profit/(loss) on disposal of fixed assets	0.2	1.2	(0.1)
Infrastructure renewals expenditure	(25.6)	(66.7)	(63.6)
Depreciation	(68.7)	(203.6)	(189.1)
<b>Operating profit</b>	<b>19.4</b>	<b>68.9</b>	<b>76.4</b>
Interest payable	(21.2)	(69.7)	(77.1)
Indexation of index-linked debt	(24.0)	(43.1)	(21.1)
Interest receivable	1.2	3.2	3.2
Fair value gains/(losses) on financial instruments	(16.4)	21.2	(42.1)
<b>Loss before tax</b>	<b>(41.0)</b>	<b>(19.5)</b>	<b>(60.7)</b>
Taxation	-	(4.4)	24.9
<b>Loss after tax</b>	<b>(41.0)</b>	<b>(23.9)</b>	<b>(35.8)</b>

## Statement of comprehensive income (unaudited)

	3 months ended 31 December 2017 £m	9 months ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Loss for the period	(41.0)	(23.9)	(35.8)
Actuarial gain/(loss) in the pension scheme	-	13.4	(88.4)
Movement on related deferred tax asset	-	(2.6)	14.4
<b>Items that will not be reclassified to the profit or loss:</b>			
Revaluation of property, plant and equipment	-	101.3	113.6
Related deferred tax	-	(17.2)	(6.8)
<b>Total comprehensive (expense)/income</b>	<b>(41.0)</b>	<b>71.0</b>	<b>(3.0)</b>

## Statement of changes in reserves (unaudited)

	3 months ended 31 December 2017 £m	9 months ended 31 December 2017 £m	9 months ended 31 December 2016 £m
Reserves at start of period	1,324.3	1,212.3	1,181.9
Revaluation (net of tax)	-	84.1	106.8
Loss for the period	(41.0)	(23.9)	(35.8)
Actuarial gain/(loss) (net)	-	10.8	(74.0)
Dividends received	-	-	1.4
<b>Reserves at end of period</b>	<b>1,283.3</b>	<b>1,283.3</b>	<b>1,180.3</b>

## Balance sheet (unaudited)

	At 31 December 2017		At 31 March 2017	
	£m	£m	£m	£m
<b>Fixed assets</b>		5,317.3		5,184.7
<b>Current assets and liabilities:</b>				
Debtors and prepayments	289.3		570.2	
Creditors and accruals	(455.6)		(763.8)	
		(166.3)		(193.6)
<b>Total assets less current liabilities</b>		5,151.0		4,991.1
<b>Financing liabilities:</b>				
Bonds	(2,082.3)		(2,047.2)	
Finance leases	(446.5)		(446.5)	
Bank loans (EIB, KfW)	(511.5)		(461.7)	
Other	(0.6)		(0.6)	
	(3,040.9)		(2,956.0)	
Net interest accrual	(100.1)		(55.7)	
	(3,141.0)		(3,011.7)	
<b>Cash and cash equivalents:</b>				
Receipts account	60.6		71.4	
Payments account	(35.0)		(12.8)	
Capex reserve account	-		(0.6)	
Debt service payments account	59.7		-	
Customer payments account	1.0		4.0	
Other bank accounts	0.1		0.1	
	86.4		62.1	
<b>Net debt</b>		(3,054.6)		(2,949.6)
Derivative financial instruments		(297.4)		(318.6)
Provisions for liabilities and charges		(87.9)		(107.1)
<b>Net assets before deferred tax</b>		1,711.1		1,615.8
Deferred tax		(427.8)		(403.5)
<b>Net assets</b>		1,283.3		1,212.3