



## **Investor Report**

**For the quarter ended 30 September 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 Anghyfyngedig group. References to "Glas Cymru" and the "Group" refer, respectively, to Glas Cymru Anghyfyngedig 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 30 September 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 six months ended 30 September are as follows:

	<b>6 months to 30 Sept 2017 £m</b>	<b>6 months to 30 Sept 2016 £m</b>	<b>Change</b>
Turnover	377	375	+1%
Operating costs	(153)	(152)	+1%
<b>EBITDA</b> (before infrastructure renewals expenditure)	<b>224</b>	<b>223</b>	-
Net interest (excluding indexation)	(47)	(51)	
Capital expenditure (before grants and contributions)	(196)	(161)	

## General overview and business update (continued)

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the six months to 30 September 2017 is £1 million higher than the comparative period last year.

Revenue in the six months to 30 September 2017 was £377 million, as compared to £375 million in the six months to 30 September 2016.

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £153 million (2016: £152 million) have increased by £1 million since last year. Staff cost increases of £5 million due to annual pay awards, development of our workforce and investment in graduates and apprentices have been offset by lower insurance charges (£2 million) and ICT operating costs (£2 million).

Net interest payable in the period (excluding fair value movements) was £66 million (2016: £56 million) including an indexation charge on index-linked debt of £19 million (2016: £6 million).

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

£m	30 September 2017	30 September 2016
Net debt	2,964	2,855
Regulatory capital value	5,367	5,094
'Financial reserves'	<b>2,403</b>	<b>2,239</b>
<b>Regulatory gearing</b>	55.2%	56.0%

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 55% as at 30 September 2017 and 'financial reserves' (RCV less net debt) have risen to £2.4 billion.

## General overview and business update (continued)

### Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £196 million (2016: £161 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 2107, all three rating agencies reaffirmed the ratings of the Company's bonds as A2/A/A with stable outlook.

### Financing and liquidity

As at 30 September 2017, undrawn credit facilities and cash (excluding the debt service payments account deposits of £40 million) amounted to £465 million. This includes undrawn loans (European Investment Bank) and revolving credit facilities totalling £400 million.

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 30 September 2017 £m	6 months ended 30 September 2017 £m	6 months ended 30 September 2016 £m
Revenue	187.5	377.3	374.6
Less: operating expenses	(75.8)	(152.8)	(151.8)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>111.7</b>	<b>224.5</b>	<b>222.8</b>
Working capital movements	(3.6)	(11.4)	(13.2)
Non bond-related interest paid	(0.5)	(1.2)	(1.0)
Interest capitalised in accordance with IAS 23	(3.4)	(6.6)	(3.8)
Interest received	1.0	2.0	2.1
<b>Net operating cash flow and interest received</b>	<b>105.2</b>	<b>207.3</b>	<b>206.9</b>
<b>New borrowings</b>			
Authorised loan facility	-	60.0	70.0
<b>Utilisation of reserves:</b>			
Cash transferred to capex reserve	(24.0)	(66.1)	(75.9)
Cash utilised from capex reserve	24.0	65.5	51.7
Net cash utilised from other reserves	1.0	17.4	2.5
<b>Capital expenditure:</b>			
Net profit on disposal of assets	0.6	1.0	-
Infrastructure renewals expenditure	(19.7)	(43.9)	(39.3)
Non-infrastructure maintenance	(80.9)	(112.2)	(55.7)
Capital expenditure	(3.3)	(43.8)	(54.4)
<b>Net cash flow after capital expenditure, new borrowings and reserve drawings</b>	<b>2.9</b>	<b>85.2</b>	<b>105.8</b>
Transfer to debt service payments account	(40.0)	(67.8)	(60.1)
Principal repayments	(3.5)	(13.3)	(12.1)
<b>Net cash flow after debt service</b>	<b>(40.6)</b>	<b>4.1</b>	<b>33.6</b>
Free cash balances brought forward	103.4	58.7	39.3
<b>Free cash balances carried forward</b>	<b>62.8</b>	<b>62.8</b>	<b>72.9</b>

## Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 30 September 2017 £m	Amount accrued 30 September 2017 £m
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	0.1	0.1
<b>Interest on senior debt:</b>		
Finance lease interest payments	-	49.2
A1 interest payments	-	10.6
A4 interest payments	7.2	-
A5 interest payments	2.3	-
A6 interest payments	-	0.7
B1 interest payments	-	11.3
B3 interest payments	4.4	-
B4 interest payments	2.5	-
B5 interest payments	0.5	-
B6 interest payments	3.0	-
European Investment Bank loan interest payments	0.1	0.7
KfW IPEX-Bank GmbH loan interest payments	0.1	-
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	0.1	-
	20.4	72.6
Interest rate swaps	3.5	-
<b>Total debt service payments</b>	23.9	72.6



## Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating <sup>1</sup>	Opening balance 1 July 2017 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 September 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		408.1	-	-	1.6	409.7
A5 notes		131.7	-	-	(0.4)	131.3
A6 notes <sup>3</sup>		136.2	-	-	-	136.2
<b>Class B bonds</b>						
B1 notes	A2/A/A	325.0	-	-	-	325.0
B3 notes		198.2	-	-	0.8	199.0
B4 notes		116.2	-	-	(0.4)	115.8
B5 notes		67.8	-	-	0.2	68.0
B6 notes		320.4	-	-	5.2	325.6
European Investment Bank loans		515.1	-	(3.5)	2.3	513.9
Local authority loans		0.6	-	-	-	0.6
		<b>3,015.8</b>	<b>-</b>	<b>(3.5)</b>	<b>9.3</b>	<b>3,021.6</b>

<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 £36.2 has been recognised in this table.

## Dŵr Cymru bank account movements (unaudited)

	Opening balance 1 July 2017 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2017 £m
<b>Free cash balances:</b>					
Receipts account	59.0	-	188.2	(185.0)	62.2
Payments account	44.3	-	441.5	(485.3)	0.5
Other bank accounts	0.1	1.0	195.6	(196.6)	0.1
	<u>103.4</u>	<u>1.0</u>	<u>825.3</u>	<u>(866.9)</u>	<u>62.8</u>
<b>Debt service payments account:</b>					
Debt service ledger	23.6	-	40.0	(23.9)	39.7
<b>Capex reserve account</b>					
	-	-	24.0	(24.0)	-
<b>Customer payments account:</b>					
Customer rebate ledger	3.0	-	-	(1.0)	2.0
	<u>130.0</u>	<u>1.0</u>	<u>889.3</u>	<u>(915.8)</u>	<u>104.5</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 30 September 2017 £m	6 months ended 30 September 2017 £m	6 months ended 30 September 2016 £m
Revenue	187.5	377.3	374.6
Operating expenditure	(75.8)	(152.8)	(151.8)
<b>EBITDA</b>	<b>111.7</b>	<b>224.5</b>	<b>222.8</b>
Profit on disposal of fixed assets	0.6	1.0	-
Infrastructure renewals expenditure	(19.2)	(41.1)	(40.1)
Depreciation	(67.6)	(134.9)	(125.6)
<b>Operating profit</b>	<b>25.5</b>	<b>49.5</b>	<b>57.1</b>
Interest payable	(23.3)	(48.6)	(52.8)
Indexation of index-linked debt	(9.4)	(19.0)	(5.5)
Interest receivable	1.0	2.0	2.1
Fair value gains/(losses) on financial instruments	19.8	37.6	(84.9)
<b>Profit/(loss) before tax</b>	<b>13.6</b>	<b>21.5</b>	<b>(84.0)</b>
Taxation	(4.4)	(4.4)	24.9
<b>Profit/(loss) after tax</b>	<b>9.2</b>	<b>17.1</b>	<b>(59.1)</b>

## Statement of comprehensive income (unaudited)

	3 months ended 30 September 2017 £m	6 months ended 30 September 2017 £m	6 months ended 30 September 2016 £m
Profit/(loss) for the period	9.2	17.1	(59.1)
Actuarial gain/(loss) in the pension scheme	13.4	13.4	(88.4)
Movement on related deferred tax asset	(2.6)	(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	101.3	113.6
Related deferred tax	(17.2)	(17.2)	(6.8)
<b>Total comprehensive income/(expense)</b>	<b>104.1</b>	<b>112.0</b>	<b>(26.3)</b>

## Statement of changes in reserves (unaudited)

	3 months ended 30 September 2017 £m	6 months ended 30 September 2017 £m	6 months ended 30 September 2016 £m
Reserves at start of period	1,220.2	1,212.3	1,181.9
Revaluation (net of tax)	84.1	84.1	106.8
Profit/(loss) for the period	9.2	17.1	(59.1)
Actuarial gain/(loss) (net)	10.8	10.8	(74.0)
Dividends paid	-	-	(0.2)
<b>Reserves at end of period</b>	<b>1,324.3</b>	<b>1,324.3</b>	<b>1,155.4</b>

## Balance sheet (unaudited)

	At 30 September 2017		At 31 March 2017	
	£m	£m	£m	£m
<b>Fixed assets</b>		5,322.5		5,184.7
<b>Current assets and liabilities:</b>				
Debtors and prepayments	387.7		570.2	
Creditors and accruals	(590.9)		(763.8)	
		(203.2)		(193.6)
<b>Total assets less current liabilities</b>		5,119.3		4,991.1
<b>Financing liabilities:</b>				
Bonds	(2,060.6)		(2,047.2)	
Finance leases	(446.5)		(446.5)	
Bank loans (EIB, KfW)	(513.9)		(461.7)	
Other	(0.6)		(0.6)	
	(3,021.6)		(2,956.0)	
Net interest accrual	(79.2)		(55.7)	
	(3,100.8)		(3,011.7)	
<b>Cash and cash equivalents:</b>				
Receipts account	62.2		71.4	
Payments account	0.5		(12.8)	
Capex reserve account	-		(0.6)	
Debt service payments account	39.7		-	
Customer payments account	2.0		4.0	
Other bank accounts	0.1		0.1	
	104.5		62.1	
<b>Net debt</b>		(2,996.3)		(2,949.6)
Derivative financial instruments		(281.0)		(318.6)
Provisions for liabilities and charges		(89.9)		(107.1)
<b>Net assets before deferred tax</b>		1,752.1		1,615.8
Deferred tax		(427.8)		(403.5)
<b>Net assets</b>		1,324.3		1,212.3

## Compliance certificate

To: Deutsche Trustee Company Limited

16 November 2017

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 8 to 9 of the Investor Report issued on today's date.

We also confirm that in the period to 30 September 2017:

- (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