



## **Investor Report**

**For the quarter ended 31 December 2019**

# Important Notice

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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 31 December 2019. 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 2019</b>	<b>9 months to 31 Dec 2018</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	
Turnover	592	586	+1%
Operating costs	(241)	(252)	-4%
<b>EBITDA</b> (before infrastructure renewals expenditure)	<b>351</b>	<b>334</b>	<b>+5%</b>
Net interest (excluding indexation)	(78)	(69)	
Capital expenditure (before grants and contributions)	(349)	(346)	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the nine months to 31 December 2019 was £17 million higher than the comparative period last year.

Revenue in the nine months to 31 December 2019 was £592 million, as compared to £586 million in the nine months to 31 December 2018. This increase is principally the impact of price and consumption movements, partially offset by customers moving to a metered supply or social tariff.

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £241 million are £11 million lower than last year. This reduction is largely attributable to one-off costs incurred last year relating to the record-breaking long spell of warm, dry weather during the summer.

## General overview and business update (continued)

### Financial performance (unaudited) (continued)

Net interest payable in the period (excluding fair value movements) was £115 million (2018: £110 million) including an indexation charge on index-linked debt of £37 million (2018: £41 million).

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

	<b>31 December</b>	<b>31 December</b>
<b>£m</b>	<b>2019</b>	<b>2018</b>
Net debt	3,459	3,184
Regulatory capital value	5,855	5,664
'Financial reserves'	<b>2,396</b>	<b>2,480</b>
<b>Regulatory gearing</b>	59.1%	56.2%

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 is 59% and 'financial reserves' (RCV less net debt) are £2.4 billion as at 31 December 2019.

### Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £349 million (2018: £346 million).

### PR19 final determination

On 16 December the Company received Ofwat's final determination of price limits for the period 2020 to 2025 and on 31 January the Company wrote to Ofwat to confirm that the Board had decided not to ask Ofwat to refer its determination to the Competition and Markets Authority for re-determination.

### 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 to 31 March 2020. These projected ratios are derived from Glas Cymru's 2019 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 9 and 10). 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.

## General overview and business update (continued)

### 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 <sup>1</sup>	A2	AA	A
B	A3	A-	A

On 30 January 2020 Fitch confirmed the rating of the Company's bonds as A and amended the outlook from negative to stable. On 20 December 2019 Moody's announced that they were placing most of the UK water sector companies that they rate "on review for downgrade" following the 16 December 2019 publication of the 2020-2025 Final Determinations by the regulator. This included placing "on review for downgrade" the corporate family rating of Dŵr Cymru Cyfyngedig and the class B senior secured debt – which was subsequently downgraded to A3 with a stable outlook on 7 February 2020. Also on 7 February 2020, S&P downgraded the class B senior secured debt to A- and revised the outlook to stable. The class A bonds (which are subject to a financial guarantee from Assured Guaranty (Europe) plc) are unaffected by this action.

### Financing and liquidity

As at 31 December 2019 the Company's undrawn credit facilities and cash totalled £444 million; this includes debt service payment funds as well as revolving credit facilities of £170 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.

The Group also has an undrawn special liquidity facility of £135 million which is available to be drawn in the event of a standstill being declared by the Security Trustee. The facility is provided on a rolling five-year 'evergreen' basis.

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<sup>1</sup> The credit ratings of the Company's class A bonds, which are guaranteed by Assured Guaranty Europe plc ("AG") (A2/AA/NR), carry the higher of either Glas or AG's rating; Moody's and S&P therefore revert to the higher AG rating but Fitch reflects the underlying rating of the Glas bonds.

## **General overview and business update (continued)**

### **Gearing and distribution policy**

The Board has approved a regulatory gearing policy (being the ratio of net debt to regulatory capital value) of around 60%. In March 2017 the Company issued a consultation to customers on distributions during the period to 31 March 2020. This consultation is taken into account when the Board determines distributions (contributions to social tariffs and discretionary capital investments). Further details of the consultation are available on the Company's website ([www.dwrcymru.com](http://www.dwrcymru.com)).

### **Dŵr Cymru Welsh Water purpose and vision**

Glas Cymru was formed nearly 20 years ago with a clear purpose: to acquire Dŵr Cymru Welsh Water (achieved in May 2001) and then to run it "better" for the benefit of its customers. In 2017, the combined Board of Dŵr Cymru Welsh Water and Glas Cymru Holdings Cyfyngedig reviewed the purpose of the Group in the light of changing market and regulatory conditions, and concluded that its core purpose remained just as valid as before. At its meeting in March 2019, the Board adopted the following statement of the purpose of the business:

"Welsh Water's purpose is to provide high quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come."

This was formalised via a minor change to the Company Articles which was approved at an extraordinary general meeting of the members held on 6 December 2019.

## Consolidated cash flow (unaudited)

	3 months ended 31 December 2019 £m	9 months ended 31 December 2019 £m	9 months ended 31 December 2018 £m
Revenue	195.1	591.6	586.3
Less: operating expenses	(82.9)	(240.6)	(252.5)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>112.2</b>	<b>351.0</b>	<b>333.8</b>
Working capital movements	16.3	20.9	(1.9)
Non bond-related interest paid	0.1	(4.6)	(1.8)
Interest capitalised in accordance with IAS 23	(6.9)	(14.4)	(15.4)
Interest received	1.4	4.5	3.4
<b>Net operating cash flow and interest received</b>	<b>123.1</b>	<b>357.4</b>	<b>318.1</b>
<b>New borrowings:</b>			
Finance leases	-	1.3	-
European Investment Bank	-	-	250.0
Intercompany loan	-	2.8	-
<b>Utilisation of reserves:</b>			
Cash transferred to capex reserve	(168.9)	(290.8)	(691.6)
Cash utilised from capex reserve	168.9	420.8	441.6
Net cash utilised from other reserves	3.0	9.0	5.4
<b>Capital expenditure:</b>			
Net profit on disposal of assets	-	0.2	0.8
Infrastructure renewals expenditure	(23.3)	(70.2)	(72.4)
Non-infrastructure maintenance	(53.5)	(151.5)	(171.8)
Capital expenditure	(40.3)	(121.8)	(101.7)
<b>Net cash flow after capital expenditure, new borrowings and reserve drawings</b>	<b>9.0</b>	<b>157.2</b>	<b>(21.6)</b>
Transfer to debt service payments account	(37.5)	(125.0)	(107.0)
Principal repayments	(8.5)	(36.7)	(18.3)
<b>Net cash flow after debt service</b>	<b>(37.0)</b>	<b>(4.5)</b>	<b>(146.9)</b>
Free cash balances brought forward	225.0	192.5	260.6
<b>Free cash balances carried forward</b>	<b>188.0</b>	<b>188.0</b>	<b>113.7</b>



<b>Consolidated debt service payments (unaudited)</b>	<b>Payments due and made in 3 months ended 31 December 2019 £m</b>	<b>Amount accrued 31 December 2019 £m</b>
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	0.3	0.1
<b>Interest on senior debt:</b>		
Finance lease interest	-	55.1
A1 bond interest	-	15.7
A4 bond interest	-	3.8
A5 bond interest	-	1.2
A6 bond interest	-	1.0
B1 bond interest	-	16.8
B3 bond interest	-	2.3
B4 bond interest	-	1.3
B5 bond interest	-	0.2
B6 bond interest	-	1.6
B7 bond interest	-	5.6
European Investment Bank loan interest	3.1	0.4
KfW IPEX-Bank GmbH loan interest	0.2	-
Revolving credit facility commitment fees	0.1	-
Assured Guaranty wrapping fees	-	(1.2)
	<u>3.7</u>	<u>103.9</u>
Interest rate swaps	2.4	-
<b>Total debt service payments</b>	<u>6.1</u>	<u>103.9</u>

## Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating <sup>1</sup>	Opening balance 1 October 2019 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 December 2019 £m
Finance leases		425.2	-	-	-	425.2
<b>Class A bonds<sup>2</sup></b>						
A1 notes	A2/AA/A	350.0	-	-	-	350.0
A4 notes		436.8	-	-	7.0	443.8
A5 notes		139.9	-	-	4.4	144.3
A6 notes <sup>3</sup>		145.2	-	-	1.6	146.8
<b>Class B bonds</b>						
B1 notes	A3/A-/A	325.0	-	-	-	325.0
B3 notes		211.8	-	-	3.5	215.3
B4 notes		123.5	-	-	3.9	127.4
B5 notes		72.7	-	-	1.1	73.8
B6 notes		345.4	-	-	0.7	346.1
B7 notes		300.0	-	-	-	300.0
Intercompany loan from Dŵr Cymru Holdings Limited		2.8	-	-	-	2.8
European Investment Bank/KfW loans		732.1	-	(8.5)	1.0	724.6
Local authority loans		0.3	-	-	-	0.3
		<b>3,610.7</b>	<b>-</b>	<b>(8.5)</b>	<b>23.2</b>	<b>3,625.4</b>

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

<sup>2</sup> Guaranteed by Assured Guaranty Europe plc rated A2/AA/NR. Class A bond ratings for Fitch therefore default to their higher underlying ratings of A2/AA/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 £46.8m has been recognised in this table.

## Dŵr Cymru bank account movements (unaudited)

	Opening balance 1 October 2019 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 December 2019 £m
<b>Free cash balances:</b>					
Receipts account	70.1	-	200.5	(207.2)	63.4
Payments account	154.7	-	612.6	(642.9)	124.4
Other bank accounts	0.2	1.4	401.5	(402.9)	0.2
	<u>225.0</u>	<u>1.4</u>	<u>1,214.6</u>	<u>(1,253.0)</u>	<u>188.0</u>
<b>Debt service payments account:</b>					
Debt service ledger	51.4	-	37.5	(6.1)	82.8
		-	-	-	-
<b>Capex reserve account</b>	-	-	168.9	(168.9)	-
<b>Customer payments account:</b>					
Customer rebate ledger	6.0	-	-	(3.0)	3.0
	<u>282.4</u>	<u>1.4</u>	<u>1,421.0</u>	<u>(1,431.0)</u>	<u>273.8</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	763	787	787
Operating expenditure	(277)	(313)	(318)	(334)	(306)
<b>Pre capital maintenance cash flows</b>	<b>473</b>	<b>434</b>	<b>445</b>	<b>453</b>	<b>481</b>
Base maintenance	(208)	(229)	(256)	(264)	(235)
<b>Post capital maintenance cash flows</b>	<b>265</b>	<b>205</b>	<b>189</b>	<b>189</b>	<b>246</b>
Net interest paid (excluding indexation and capitalisation)	(113)	(120)	(133)	(134)	(145)
Enhancement expenditure	(48)	(88)	(101)	(132)	(139)
Customer Distributions <sup>1</sup>	(13)	(36)	(64)	(62)	(85)
<b>Pre-financing cash flows</b>	<b>91</b>	<b>(39)</b>	<b>(109)</b>	<b>(139)</b>	<b>(123)</b>
<b>Interest payable on senior debt:</b>					
Fixed interest swap	10	10	10	9	7
Finance lease RPI swaps	7	13	25	20	13
Finance lease interest	6	3	3	3	9
A1 Bonds	21	21	21	21	21
B1 Bonds	22	22	22	22	22
B7 Bonds	-	-	2	8	8
Index-linked bonds	43	43	42	43	45
Wrapping fees	4	4	4	5	5
Term-loan interest	6	8	8	8	19
Interest receivable	(6)	(4)	(4)	(5)	(4)
<b>Net interest payable</b>	<b>113</b>	<b>120</b>	<b>133</b>	<b>134</b>	<b>145</b>
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.2	3.6	3.3	3.4	3.3
Interest cover post capital maintenance (trigger 1.0)	2.3	1.7	1.4	1.4	1.7

<sup>1</sup> This figure is the total value of revenue foregone in order to fund social tariffs in the year as well as additional discretionary expenditure on behalf of customers, referred to together as "Customer Distributions".

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

(See important notice at the front of the document)

	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
<b>Senior gross debt:</b>					
Finance leases	456	446	436	435	410
Class A bonds <sup>1</sup>	1,012	1,024	1,048	1,071	1,092
Class B bonds	1,008	1,023	1,350	1,371	1,396
Existing loan facilities	407	462	511	745	723
Net interest accrual on senior debt	55	57	57	56	52
<b>Total senior gross debt</b>	<b>2,938</b>	<b>3,012</b>	<b>3,402</b>	<b>3,678</b>	<b>3,673</b>
Less: cash and cash equivalents	(92)	(65)	(272)	(351)	(133)
<b>Total net debt</b>	<b>2,846</b>	<b>2,947</b>	<b>3,130</b>	<b>3,327</b>	<b>3,540</b>
Regulatory capital value (RCV)	4,983	5,217	5,468	5,671	5,903 <sup>2</sup>
Customer Reserves (RCV less total net debt)	2,137	2,270	2,338	2,344	2,363
RAR	57.1%	56.5%	57.2%	58.7%	60.0%
Shadow RCV <sup>3</sup>	4,950	5,184	5,485	5,803	5,903 <sup>2</sup>
Customer reserves	2,104	2,237	2,355	2,476	2,363
Shadow RAR	57.5%	56.8%	57.1%	57.3%	60.0%

<sup>1</sup> 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%.

<sup>2</sup> The 31 March 2020 RCV was published by Ofwat on 16 December 2019 as part of the PR19 Final Determination. Projected net debt is per Glas Cymru's 2019 financial plan.

<sup>3</sup> 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, uplifted by our inflation assumptions and adjusted for other factors we consider are likely to impact on the RCV during the period.

## Income statement (unaudited)

	3 months ended 31 December 2019 £m	9 months ended 31 December 2019 £m	9 months ended 31 December 2018 £m
Revenue	195.1	591.6	586.3
Operating expenditure	(82.9)	(240.6)	(252.5)
<b>EBITDA</b>	<b>112.2</b>	<b>351.0</b>	<b>333.8</b>
Profit on disposal of fixed assets	-	0.2	0.8
Infrastructure renewals expenditure	(22.8)	(68.1)	(68.9)
Depreciation	(79.2)	(233.8)	(216.0)
<b>Operating profit</b>	<b>10.2</b>	<b>49.3</b>	<b>49.7</b>
Interest payable	(25.5)	(82.4)	(72.4)
Indexation of index-linked debt	(23.2)	(36.7)	(41.2)
Interest receivable	1.4	4.5	3.5
Fair value gains/ (losses) on financial instruments	38.6	(13.8)	(21.6)
<b>Profit/(loss) before tax</b>	<b>1.5</b>	<b>(79.1)</b>	<b>(82.0)</b>
Taxation	-	12.5	2.9
<b>Profit/(loss) after tax</b>	<b>1.5</b>	<b>(66.6)</b>	<b>(79.1)</b>

## Statement of comprehensive income (unaudited)

	3 months ended 31 December 2019 £m	9 months ended 31 December 2019 £m	9 months ended 31 December 2018 £m
Profit/(loss) for the period	1.5	(66.6)	(79.1)
Actuarial (loss)/gain on defined benefit scheme liability	-	(28.0)	14.6
Movement on related deferred tax asset	-	4.7	(2.9)
<b>Items that will not be reclassified to the profit or loss:</b>			
Revaluation of property, plant and equipment (net of tax)	-	68.1	99.0
<b>Total comprehensive profit/(loss)</b>	<b>1.5</b>	<b>(21.8)</b>	<b>31.6</b>

## Statement of changes in reserves (unaudited)

	3 months ended 31 December 2019 £m	9 months ended 31 December 2019 £m	9 months ended 31 December 2018 £m
Reserves at start of period	1,285.3	1,308.6	1,313.5
Profit/(loss) for the period	1.5	(66.6)	(79.1)
Actuarial (loss)/gain on defined benefit pension scheme liability (net of tax)	-	(23.3)	11.7
Revaluation of property, plant and equipment (net of tax)	-	68.1	99.0
<b>Reserves at end of period</b>	<b>1,286.8</b>	<b>1,286.8</b>	<b>1,345.1</b>

## Balance sheet (unaudited)

	At 31 December 2019		At 31 March 2019	
	£m	£m	£m	£m
<b>Fixed assets</b>		<b>5,840.8</b>		<b>5,696.8</b>
<b>Current assets and liabilities:</b>				
Debtors and prepayments	319.5		583.3	
Creditors and accruals	(558.8)		(824.4)	
		(239.3)		(241.1)
<b>Total assets less current liabilities</b>		<b>5,601.5</b>		<b>5,455.7</b>
<b>Financing liabilities:</b>				
Bonds	(2,472.5)		(2,441.4)	
Finance leases	(425.2)		(435.0)	
Bank loans (EIB, KfW)	(724.6)		(744.6)	
Other	(3.1)		(0.4)	
	(3,625.4)		(3,621.4)	
Net interest accrual	(110.0)		(56.3)	
	(3,735.4)		(3,677.7)	
<b>Cash and cash equivalents:</b>				
Receipts account	63.4		78.6	
Payments account	124.4		113.7	
Capex reserve account	-		130.0	
Debt service payments account	82.8		13.3	
Customer payments account	3.0		12.0	
Other bank accounts	0.2		0.2	
	273.8		347.8	
<b>Net debt</b>		<b>(3,461.6)</b>		<b>(3,329.9)</b>
Derivative financial instruments		(297.6)		(283.8)
Provisions for liabilities and charges		(129.0)		(103.7)
<b>Net assets before deferred tax</b>		<b>1,713.3</b>		<b>1,738.3</b>
Deferred tax		(426.5)		(429.7)
<b>Net assets</b>		<b>1,286.8</b>		<b>1,308.6</b>