



## **Investor Report**

**For the quarter ended 30 June 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 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 30 June 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 three months ended 30 June are as follows:

	<b>3 months to 30 June 2019</b>	<b>3 months to 30 June 2018</b>	
	<b>£m</b>	<b>£m</b>	<b>Change</b>
Turnover	193	194	-1%
Operating costs	(78)	(78)	0%
<b>EBITDA (before infrastructure renewals expenditure)</b>	<b>115</b>	<b>116</b>	<b>-1%</b>
Net interest (excluding indexation)	(26)	(24)	
Capital expenditure (before grants and contributions)	(115)	(107)	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the three months to 30 June 2019 is £1 million lower than the comparative period last year.

Revenue in the three months to 30 June 2019 was £193 million, as compared to £194 million in the three months to 30 June 2018.

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £78 million is in line with the same period last year.

## General overview and business update (continued)

### Financial performance (unaudited) (continued)

Net interest payable in the period (excluding fair value movements) was £32 million (2018: £34 million) including an indexation charge on index-linked debt of £6 million (2018: £10 million).

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

£m	30 June 2019	30 June 2018
Net debt	3,374	3,162
Regulatory capital value	5,777	5,548
'Financial reserves'	<b>2,403</b>	<b>2,386</b>
<b>Regulatory gearing</b>	58.4%	57.0%

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 58% as at 30 June 2019 and 'financial reserves' (RCV less net debt) have risen to £2.4 billion.

### Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £115 million (2018: £107 million) which is £8 million higher than last year due to timing delays at the start of last year.

### PR19 business plan submission

On 18 July we received Ofwat's draft determination of price limits for the period 2020 to 2025. Companies have an opportunity to provide new evidence if they consider that the draft determinations will prevent them from delivering for customers and the environment; Ofwat will consider the responses received by 30 August from all stakeholders before publishing final determinations on 11 December.

### 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 neg
B	A2 neg	A neg	A neg

On 13 September 2018 Moody's confirmed the rating as A2, on 4 June 2019 Fitch confirmed the rating as A; and on 24th June 2019 S&P confirmed the rating of the Company's bonds as A, all with negative outlook.

### Financing and liquidity

As at 30 June 2019 the Company's undrawn credit facilities and cash totalled £475 million; this includes revolving credit facilities amounting to £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 has a special liquidity facility of £135 million which is available to be drawn in the event of a standstill being declared by the Security Trustee. Until 2 April 2019 this facility was provided by four banks and was renewable on an annual 364-day basis. From 3 April 2019 the facility is provided by an insurance provider (Assured Guaranty) on a rolling five-year 'evergreen' basis.

### 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. Further details of the consultation are available on the Company's website ([www.dwrcymru.com](http://www.dwrcymru.com)).

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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)

### Dŵr Cymru 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 a new 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 will be formalised via a minor change to the Company Articles, to be approved at an extraordinary general meeting of the members on 6 December 2019.

## Consolidated cash flow (unaudited)

	3 months ended 30 June 2019 £m	3 months ended 30 June 2018 £m
Revenue	193.1	194.1
Less: operating expenses	(77.5)	(77.9)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>115.6</b>	<b>116.2</b>
Working capital movements	7.3	7.2
Non bond-related interest paid	(2.8)	(1.1)
Interest capitalised in accordance with IAS 23	(3.7)	(4.0)
Interest received	1.4	1.3
<b>Net operating cash flow and interest received</b>	<b>117.8</b>	<b>119.6</b>
<b>Utilisation of reserves:</b>		
Cash transferred to capex reserve	(7.9)	(88.3)
Cash utilised from capex reserve	119.7	88.3
Net cash utilised from other reserves	3.0	1.8
<b>Capital expenditure:</b>		
Net profit on disposal of assets	-	0.7
Infrastructure renewals expenditure	(21.2)	(24.0)
Non-infrastructure maintenance	(52.2)	(55.9)
Capital expenditure	(38.7)	(34.3)
<b>Net cash flow after capital expenditure, new borrowings and reserve drawings</b>	<b>120.5</b>	<b>7.9</b>
Transfer to debt service payments account	(49.9)	(37.0)
Principal repayments	(24.6)	(9.8)
<b>Net cash flow after debt service</b>	<b>46.0</b>	<b>(38.9)</b>
Free cash balances brought forward	192.5	260.6
<b>Free cash balances carried forward</b>	<b>238.5</b>	<b>221.7</b>



<b>Consolidated debt service payments (unaudited)</b>	<b>Payments due and made in 3 months ended 30 June 2019 £m</b>	<b>Amount accrued 30 June 2019 £m</b>
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	-	0.1
<b>Interest on senior debt:</b>		
Finance lease interest	11.1	51.0
A1 bond interest	-	5.2
A4 bond interest	-	3.7
A5 bond interest	-	1.1
A6 bond interest	-	0.3
B1 bond interest	-	5.6
B3 bond interest	-	2.2
B4 bond interest	-	1.2
B5 bond interest	-	0.2
B6 bond interest	-	1.5
B7 bond interest	-	1.9
European Investment Bank loan interest	1.3	0.4
KfW IPEX-Bank GmbH loan interest	2.5	-
Revolving credit facility commitment fees	-	0.1
MBIA wrapping fees	4.6	(3.5)
VAT on lease payments	2.2	-
Miscellaneous fees	0.1	-
	21.8	71.0
Interest rate swaps	2.3	-
<b>Total debt service payments</b>	<b>24.1</b>	<b>71.0</b>

## Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating <sup>1</sup>	Opening balance 1 April 2019 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 June 2019 £m
Finance leases		435.0	-	(11.1)	-	423.9
<b>Class A bonds<sup>2</sup></b>						
A1 notes	A2/AA/A neg	350.0	-	-	-	350.0
A4 notes		434.8	-	-	1.0	435.8
A5 notes		141.4	-	-	(0.7)	140.7
A6 notes <sup>3</sup>		144.5	-	-	0.3	144.8
<b>Class B bonds</b>						
B1 notes	A2 neg/A neg/A neg	325.0	-	-	-	325.0
B3 notes		210.8	-	-	0.7	211.5
B4 notes		124.8	-	-	(0.6)	124.2
B5 notes		72.4	-	-	0.1	72.5
B6 notes		337.7	-	-	3.9	341.6
B7 notes		300.0	-	-	-	300.0
European Investment Bank/KfW loans		744.6	-	(13.5)	1.8	732.9
Local authority loans		0.4	-	-	-	0.4
		<b>3,621.4</b>	<b>-</b>	<b>(24.6)</b>	<b>6.5</b>	<b>3,603.3</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 default to their higher underlying ratings of A2/AA/A neg.

<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 £44.8m has been recognised in this table.

## Dŵr Cymru bank account movements (unaudited)

	Opening balance 1 April 2019 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2019 £m
<b>Free cash balances:</b>					
Receipts account	78.6	-	205.9	(233.7)	50.8
Payments account	113.7	-	605.5	(531.8)	187.4
Other bank accounts	0.2	1.4	251.5	(252.8)	0.3
	192.5	1.4	1,062.9	(1,018.3)	238.5
<b>Debt service payments account:</b>					
Debt service ledger	13.3	-	49.9	(24.1)	39.1
<b>Capex reserve account</b>					
	130.0	-	7.9	(119.7)	18.2
<b>Customer payments account:</b>					
Customer rebate ledger	12.0	-	-	(3.0)	9.0
	347.8	1.4	1,120.7	(1,165.1)	304.8

## 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	5,968
Customer Reserves (RCV less total net debt)	2,137	2,270	2,338	2,344	2,428
RAR	57.1%	56.5%	57.2%	58.7%	59.3%
Shadow RCV <sup>2</sup>	4,950	5,184	5,458	5,803	6,089
Customer reserves	2,104	2,237	2,355	2,476	2,549
Shadow RAR	57.5%	56.8%	57.1%	57.3%	58.1%

<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> 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. We have not yet updated this analysis to reflect the position in the Draft Determination received from Ofwat on 18 July 2019.

## Income statement (unaudited)

	3 months ended 30 June 2019 £m	3 months ended 30 June 2018 £m
Revenue	193.1	194.1
Operating expenditure	(77.5)	(77.9)
<b>EBITDA</b>	<b>115.6</b>	<b>116.2</b>
Profit on disposal of fixed assets	-	0.7
Infrastructure renewals expenditure	(21.1)	(21.4)
Depreciation	(76.8)	(71.6)
<b>Operating profit</b>	<b>17.7</b>	<b>23.9</b>
Interest payable	(27.2)	(25.3)
Indexation of index-linked debt	(6.5)	(9.5)
Interest receivable	1.5	1.3
Fair value (losses)/gains on financial instruments	(23.3)	0.8
<b>Loss before tax</b>	<b>(37.8)</b>	<b>(8.8)</b>
Taxation	-	-
<b>Loss after tax</b>	<b>(37.8)</b>	<b>(8.8)</b>

## Statement of comprehensive income (unaudited)

	3 months ended 30 June 2019 £m	3 months ended 30 June 2018 £m
Loss for the period	(37.8)	(8.8)
Actuarial result	-	-
Movement on related deferred tax asset	-	-
<b>Items that will not be reclassified to the profit or loss:</b>		
Revaluation of property, plant and equipment (net of tax)	-	-
<b>Total comprehensive loss</b>	<b>(37.8)</b>	<b>(8.8)</b>

## Statement of changes in reserves (unaudited)

	3 months ended 30 June 2019 £m	3 months ended 30 June 2018 £m
Reserves at start of period	1,308.6	1,313.5
Loss for the period	(37.8)	(8.8)
Actuarial result	-	-
Revaluation (net of tax)	-	-
<b>Reserves at end of period</b>	<b>1,270.8</b>	<b>1,304.7</b>

## Balance sheet (unaudited)

	At 30 June 2019		At 31 March 2019	
	£m	£m	£m	£m
<b>Fixed assets</b>		<b>5,714.8</b>		<b>5,696.8</b>
<b>Current assets and liabilities:</b>				
Debtors and prepayments	505.3		583.3	
Creditors and accruals	(732.8)		(824.4)	
		<u>(227.5)</u>	<u>(241.1)</u>	
<b>Total assets less current liabilities</b>		<b>5,487.3</b>		<b>5,455.7</b>
<b>Financing liabilities:</b>				
Bonds	(2,446.1)		(2,441.4)	
Finance leases	(423.9)		(435.0)	
Bank loans (EIB, KfW)	(732.9)		(744.6)	
Other	(0.4)		(0.4)	
	<u>(3,603.3)</u>		<u>(3,621.4)</u>	
Net interest accrual	(79.8)		(56.3)	
	<u>(3,683.1)</u>		<u>(3,677.7)</u>	
<b>Cash and cash equivalents:</b>				
Receipts account	50.8		78.6	
Payments account	187.4		113.7	
Capex reserve account	18.2		130.0	
Debt service payments account	39.1		13.3	
Customer payments account	9.0		12.0	
Other bank accounts	0.3		0.2	
	<u>304.8</u>		<u>347.8</u>	
<b>Net debt</b>		<b>(3,378.3)</b>		<b>(3,329.9)</b>
Derivative financial instruments		(307.1)		(283.8)
Provisions for liabilities and charges		(101.4)		(103.7)
<b>Net assets before deferred tax</b>		<b>1,700.5</b>		<b>1,738.3</b>
Deferred tax		(429.7)		(429.7)
<b>Net assets</b>		<b>1,270.8</b>		<b>1,308.6</b>