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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 December 2012

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Contents

General overview and business update

This quarterly Investor Report covers the three month period ending 31 December 2012. 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 (KPIs) 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 nine months ended 31 December are as follows:

	9 months to 31 December 2012 £m	**9 months to 31 December 2011 £m**	**Change**
Turnover	540	520	+4%
Operating costs	213	201	+6%
EBITDA (before infrastructure renewals expenditure)	**327**	**319**	**+3%**
Net interest (excluding indexation)	57	72	
Capital expenditure (before grants and contributions)	227	175	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the nine months to 31 December 2012 is slightly higher than the comparative period last year – Ofwat's RPI & K price increases are largely responsible for the rise in income of some £20 million partially offset by an additional £12 million of operating costs.

Turnover in the nine months to 31 December 2012 was £540 million, as compared to £520 million in the nine months to 31 December 2011. The increase is a reflection of the overall price increase of 4.8% (being the RPI+K adjustment allowed by Ofwat). During the period, 12,000 domestic customers switched to metered charging (2011: 11,500).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £213 million (2011: £201 million) and have increased by 6%, due to increased energy costs, private sewer-related expenditure and the impact of general inflation.

Net interest payable in the period (excluding fair value movements) was £82 million (2011: £111 million), including an indexation charge on index-linked debt of £25 million (2011: £39 million) and an accounting profit of some £14 million following the termination of finance leases.

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

£m	**31 December 2012**	**31 March 2012**
Net debt	2,712	2,696
Regulatory capital value	4,303	4,171
'Financial reserves'	**1,591**	**1,475**
Regulatory gearing	63%	65%

On Glas Cymru's acquisition of Welsh Water in May 2001, gearing stood at 93% (net debt/RCV). Since then, the financial position of the group has improved steadily, such that gearing has fallen to 63% as at 31 December 2012 and 'financial reserves' (RCV less net debt) are £1.6 billion.

General overview and business update cont'd

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £227 million before grants and contributions (2011: £201 million). Of that £227 million, £139 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £182 million is classed as capital maintenance. We have invested £731 million to date into our AMP5 capital programme; during the five year regulatory period to 2015 we plan to invest £1.5 billion 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 up to 31 March 2015. These 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 to 12). 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 as follows:

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/B3/-), 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 22 August 2012 Moody's corporate family rating of Dŵr Cymru Cyfyngedig was reaffirmed as A3, on 20 August 2012 S&P reaffirmed Glas Cymru's ratings and on 26 September 2012 Fitch reaffirmed Dŵr Cymru's credit ratings with stable outlook.

Financing and liquidity

As at 31 December 2012, undrawn credit facilities and cash (excluding the debt service reserve account deposits of £79 million) amounted to £328 million, including undrawn revolving credit and European Investment Bank facilities of £140 million and £75 million respectively. In line with prudent policies approved by the board, cash is invested in AAA rated liquidity funds and bonds, and banks subject to minimum short-term rating criteria of A1/P1/F1.

General overview and business update cont'd

Private Sewers

On 1 October 2011 Dŵr Cymru Cyfyngedig assumed responsibility for managing the private sewers network in its operational area. The transfer of an estimated 17,000 kilometres of private sewers and drains has significantly increased the size of the network. Little information is available to judge the condition of these sewers – and any attributable value – but they are typically expected to be poor and below the standard of assets that the industry is generally required to operate. In light of this, and the fact that they do not generate an increase in the RCV of the business, no value has been attributed to these assets in the balance sheet as at 31 December 2012.

Regulatory arrangements have yet to be finalised with regard to the recovery of additional expenditure associated with this transfer. The treatment is expected to be via existing regulatory methods, at the 2014 price review or an earlier interim determination of the price control. As far as possible, it is expected that the performance of these new assets will be ring-fenced so as not to distort the assessment of the underlying performance of the business.

Albion Water case

A Competition Appeal Tribunal hearing began on 15 October in order to determine damages in respect of a long running dispute involving Albion Water. Albion Water's claim is for damages of up to £13 million. The outcome of the case remains unknown and a determination is awaited.

2014 Price Review

On 28 January 2013, Ofwat published a consultation on the framework and approach for setting price controls (for the period 2015 to 2020) for all appointed water and sewerage and water-only companies in England and Wales. A copy of the proposal can be found online at http://www.ofwat.gov.uk/pricereview/pr14/pap_con201301framework.pdf. Stakeholders are invited to send comments to Ofwat on the proposed framework by 26 March 2013.

Proposed licence modifications

On 21 December 2012 Ofwat published a consultation on its section 13 proposals to modify company's licences. Dŵr Cymru Cyfyngedig wrote to Ofwat on 23 January 2013 accepting these proposed changes (see http://www.dwrcymru.com/en/Company-Information/Regulation-and-Competition.aspx).

Investors

If you would like a one-to-one meeting with the Finance Director or the Treasurer, please contact Gina Cardwell (telephone 01443 452768) or send an e-mail request to investors@dwrcymru.com.

Consolidated cash flow

	3 months ended 31 December 2012 £m	9 months ended 31 December 2012 £m	9 months ended 31 December 2011 £m
Turnover	180.4	540.3	519.9
Less: operating expenses	(73.5)	(213.3)	(201.4)
Earnings before interest, taxation, depreciation and amortisation	106.9	327.0	318.5
Working capital movements	11.5	(4.4)	(23.6)
Non bond-related interest paid	(1.3)	(2.5)	(3.7)
Interest capitalised in accordance with IAS 23	(2.1)	(5.7)	(6.1)
Interest received	2.0	7.0	3.6
Net operating cash flow and interest received	117.0	321.4	288.7
New borrowings:			
Class B bonds	-	-	128.1
European Investment Bank	-	-	25.0
Utilisation of reserves:			
Cash transferred to capex reserve	(25.7)	(165.3)	(103.9)
Cash utilised from capex reserve	25.7	150.3	103.6
Capital expenditure:			
Net profit on disposal of assets	-	0.1	0.1
Infrastructure renewals expenditure	(33.2)	(81.8)	(53.1)
Non-infrastructure maintenance	(14.2)	(54.0)	(49.8)
Enhancement expenditure	(41.4)	(92.6)	(73.7)
Net cash flow after capital expenditure, new borrowings and reserve drawings	28.2	78.1	265.0
Transfer to debt service payments account	(18.5)	(88.2)	(92.6)
Principal repayments	(112.1)	(119.0)	(11.5)
Net cash flow after debt service	(102.4)	(129.1)	160.9
Free cash balances brought forward	215.6	242.3	79.6
Free cash balances carried forward	113.2	113.2	240.5

Consolidated debt service payments

	Payments due & made in 3 months ending 31 December 2012 £m	Amount accrued 31 December 2012 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	-
Interest on senior debt:		
Finance lease interest payments	-	50.5
Finance lease consent fee	(1.1)	-
A1 interest payments	-	15.8
A4 interest payments	-	3.3
A5 interest payments	-	1.1
A6 interest payments	2.7	1.0
B1 interest payments	-	16.8
B3 interest payments	-	2.0
B4 interest payments	-	1.2
B5 interest payments	-	0.2
B6 interest payments	-	1.3
European Investment Bank loan interest payments	1.0	0.2
KfW IPEX-Bank GmbH loan interest payments	0.1	-
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	-	0.2
	2.9	93.6
Interest rate swaps	2.3	-
Senior interest payments	5.2	93.6
Total debt service payments	5.2	93.6

Glas notes principal balance reconciliation

	Credit rating[1]	Opening balance 1 October 2012 £m	Repayment £m	Indexation £m	Closing balance 31 December 2012 £m
Finance leases		734.1	(107.6)	-	626.5
Class A bonds[2]					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		367.3	-	3.2	370.5
A5 notes		117.7	-	1.9	119.6
A6 notes[3]		122.1	-	1.0	123.1
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		178.3	-	1.5	179.8
B4 notes		103.9	-	1.7	105.6
B5 notes		61.0	-	0.6	61.6
B6 notes		288.8	-	0.9	289.7
European Investment Bank loan		217.8	(4.5)	-	213.3
KfW IPEX-Bank GmbH loan		35.0	-	-	35.0
Local authority loans		1.4	-	-	1.4
		2,902.4	(112.1)	10.8	2,801.1

[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 £23.1m reflects the principal accrual on the index-linked swap.**

Glas bank account movements

	Opening balance 1 October 2012 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 December 2012 £m
Free cash balances:					
Receipts account	52.8	-	191.5	(189.6)	54.7
Payments account	177.5	-	406.7	(536.7)	47.5
Other bank accounts	(14.7)	2.0	545.6	(521.9)	11.0
	215.6	2.0	1,143.8	(1,248.2)	113.2
Debt service payments account:					
Debt service ledger	57.1	-	18.5	(5.2)	70.4
Insurance proceeds ledger	8.5	-	-	-	8.5
	65.6	-	18.5	(5.2)	78.9
Capex reserve account	-	-	25.7	(25.7)	-
	281.2	2.0	1,188.0	(1,279.1)	192.1

Interest cover ratio (ICR) – 5 years to 31 March 2010

(See important notice at the front of the document)	Actual Year to 31 March 2006 £m	Year to 31 March 2007 £m	Year to 31 March 2008 £m	Year to 31 March 2009 £m	Year to 31 March 2010 £m
Income	577	603	649	684	717
Operating expenditure (before exceptional costs)	(213)	(229)	(231)	(267)	(266)
Pre capital maintenance cash flows	364	374	418	417	451
Capital maintenance expenditure	(98)	(150)	(146)	(189)	(124)
Post capital maintenance cash flows	266	224	272	228	327
Net interest (excluding indexation)	(130)	(127)	(128)	(124)	(113)
Capital expenditure	(122)	(97)	(137)	(152)	(225)
Customer rebates	(23)	(25)	(25)	(27)	(28)
Pre-financing cash flows	(9)	(25)	(18)	(75)	(39)
Interest payable on senior debt:					
Finance leases	32	34	46	43	14
Class A	44	37	36	41	40
Class B	34	32	33	34	33
MBIA financial guarantee fees	5	4	4	4	4
Interest rate swaps	4	8	-	(8)	10
Authorised loans	5	8	8	7	2
Less interest receivable	(10)	(7)	(12)	(9)	(3)
Total net senior debt interest	114	116	115	112	100
Interest payable on junior debt:					
Class C	13	10	10	10	10
Other	3	2	2	2	3
Total interest payable	130	128	127	124	113
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.3	3.6	3.7	4.5
Total interest cover pre capital maintenance	2.8	2.9	3.3	3.4	4.0
Senior interest cover post capital maintenance (trigger 1.0)	2.3	2.0	2.4	2.0	3.3
Total interest cover post capital maintenance	2.0	1.8	2.1	1.8	2.9

Interest cover ratio (ICR) – 5 years to 31 March 2015 (based on 2012 business plan)

(See important notice at the front of the document)	Actual		Projections		
	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	714	725	734
Operating expenditure	(265)	(273)	(285)	(290)	(297)
Pre capital maintenance cash flows	412	422	429	435	437
Capital maintenance expenditure	(97)	(169)	(159)	(161)	(149)
Post capital maintenance cash flows	315	253	270	274	288
Net interest (excluding indexation)	(132)	(140)	(123)	(126)	(127)
Capital expenditure	(131)	(84)	(151)	(174)	(155)
Pre-financing cash flows	52	29	(4)	(26)	6
Interest payable on senior debt:					
Finance leases	(2)	9	17	17	17
Class A	41	39	40	40	40
Class B	37	40	41	41	42
MBIA financial guarantee fees	4	4	5	5	5
Interest rate swaps	41	45	16	16	15
Authorised loans	2	4	8	11	12
Less interest receivable	(4)	(5)	(4)	(4)	(4)
Total net senior debt interest	120	136	123	126	127
Interest payable on junior debt:					
Class C (including £6m premium on early redemption)	9	-	-	-	-
Other	3	4	-	-	-
Total interest payable	132	140	123	126	127
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.4	3.1	3.5	3.5	3.4
Total interest cover pre capital maintenance	3.1	3.0	3.5	3.5	3.4
Senior interest cover post capital maintenance (trigger 1.0)	2.6	1.9	2.2	2.2	2.3
Total interest cover post capital maintenance	2.4	1.8	2.2	2.2	2.3

Regulatory asset ratio (RAR) – 5 years to 31 March 2010

(See important notice at the front of the document)	Actual As at 31 March 2006 £m	As at 31 March 2007 £m	As at 31 March 2008 £m	As at 31 March 2009 £m	As at 31 March 2010 £m
Senior gross debt:					
Finance leases	740	767	842	892	884
Class A	742	856	875	902	896
Class B	553	611	623	637	774
Net interest accrual on senior debt	29	84	56	54	55
Authorised loans	60	135	131	151	182
Authorised loan facility	120	-	-	-	-
Total senior gross debt	2,244	2,453	2,527	2,636	2,791
Less: cash balances and authorised investments	(14)	(158)	(124)	(139)	(249)
Total senior net debt	2,230	2,295	2,403	2,497	2,542
Class C	125	125	125	125	125
Interest accrual on junior debt	-	10	-	-	-
Local authority loans	4	4	3	3	2
Total net debt	2,359	2,434	2,531	2,625	2,669
Regulatory capital value (RCV)	3,042	3,310	3,529	3,626	3,737
Reserves (RCV less total net debt)	683	876	998	1,001	1,068
Regulatory asset ratio:					
RAR (Senior)	73%	69%	68%	69%	68%
RAR (Senior + C) (trigger 90%; default 95%)	77%	73%	72%	72%	71%
RAR (Total debt)	78%	74%	72%	72%	71%

Regulatory asset ratio (RAR) – 5 years to 31 March 2015 (based on 2012 business plan)

(See important notice at the front of the document)	Actual		Projections		
	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	728	714	671
Class A	922	950	964	977	989
Class B	796	949	973	985	997
Net interest accrual on senior debt	56	102	47	50	52
Authorised loans	248	260	321	408	380
Total senior gross debt	2,764	2,995	3,033	3,134	3,089
Less: cash balances and authorised investments	98	(301)	(258)	(301)	(233)
Total senior net debt	2,666	2,694	2,775	2,833	2,856
Local authority loans	2	2	1	1	1
Total net debt	2,668	2,696	2,776	2,834	2,857
Regulatory capital value (RCV)	3,980	4,171	4,293	4,393	4,506[1]
Reserves (RCV less total net debt)	1,312	1,475	1,517	1,559	1,649
Regulatory asset ratio:					
RAR (Senior) (trigger 90%; default 95%)	67%	65%	65%	65%	63%
RAR (Total debt)	67%	65%	65%	65%	63%

[1] RCV at 31 March 2015 anticipates an adjustment incorporating an assumed movement in COPI relative to RPI during the 5 year period.

Income statement (unaudited)

	3 months ended 31 December 2012 £m	9 months ended 31 December 2012 £m	9 months ended 31 December 2011 £m
Turnover	180.4	540.3	519.9
Operating expenditure	(73.5)	(213.3)	(201.4)
EBITDA	106.9	327.0	318.5
Infrastructure renewals expenditure	(32.9)	(83.9)	(50.5)
Depreciation	(40.0)	(119.0)	(112.2)
Operating profit	34.0	124.1	155.8
Interest payable	(8.3)	(63.3)	(75.6)
Indexation of index-linked debt	(10.8)	(25.4)	(39.0)
Interest receivable	1.8	6.7	3.9
Fair value losses on financial instruments	(31.3)	(6.6)	(184.4)
(Loss)/profit before tax	(14.6)	35.5	(139.3)
Deferred tax			
Current year movements	-	(13.7)	29.1
Less: movement on deferred tax asset in pension scheme	-	0.4	(5.1)
Effect of change in expected tax rate	-	11.3	11.0
Taxation	-	(2.0)	35.0
(Loss)/profit after tax	(14.6)	33.5	(104.3)

Statement of comprehensive income (unaudited)

	3 months ended 31 December 2012 £m	9 months ended 31 December 2012 £m	9 months ended 31 December 2011 £m
(Loss)/profit for the period	(14.6)	33.4	(104.4)
Actuarial gain/(loss) in the pension scheme	0.1	0.5	(20.6)
Movement on related deferred tax asset	(2.5)	(2.9)	5.1
Total recognised (losses)/gains for the period	(17.0)	31.0	(119.9)

Balance sheet (unaudited)

	At 31 December 2012		At 31 March 2012	
	£m	£m	£m	£m
Fixed assets		3,339.7		3,298.4
Current assets and liabilities:				
Debtors and prepayments	236.5		518.2	
Creditors and accruals	(294.4)		(591.4)	
		(57.9)		(73.2)
Total assets less current liabilities		3,281.8		3,225.2
Financing liabilities:				
Bonds	(1,924.8)		(1,899.4)	
Finance leases	(626.5)		(734.1)	
Bank loans (EIB, KfW)	(248.3)		(259.5)	
Other	(1.4)		(1.6)	
	(2,801.0)		(2,894.6)	
Net interest accrual	(102.7)		(101.9)	
	(2,903.7)		(2,996.5)	
Cash and cash equivalents:				
Receipts account	54.7		67.7	
Payments account	47.5		183.1	
Capex reserve account	-		(15.0)	
Debt service payments account	78.9		73.2	
Other bank accounts	11.0		(8.5)	
	192.1		300.5	
Net debt		**(2,711.6)**		**(2,696.0)**
Derivative financial instruments		(304.6)		(298.0)
Provisions for liabilities and charges		(50.8)		(52.3)
Net assets before deferred tax		**214.8**		**178.9**
Deferred tax		(261.3)		(256.2)
Net assets		**(46.5)**		**(77.3)**