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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 30 September 2012

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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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Contents

General overview and business update

This quarterly Investor Report covers the three month period ending 30 September 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 six months ended 30 September are as follows:

	6 months to 30 September 2012 £m	6 months to 30 September 2011 £m	Change
Turnover	360	346	+4%
Operating costs	140	132	+6%
EBITDA (before infrastructure renewals expenditure)	**220**	**214**	**+3%**
Net interest (excluding indexation)	50	49	
Capital expenditure (before grants and contributions)	153	113	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the six months to 30 September 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 £14 million partially offset by an additional £8 million of operating costs.

Turnover in the six months to 30 September 2012 was £360 million, as compared to £346 million in the three months to 30 September 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, 9,000 domestic customers switched to metered charging (2011: 8,500).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £140 million (2011: £132 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 £65 million (2011: £75 million), including an indexation charge on index-linked debt of £15 million (2011: £25 million).

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

£m	**30 September 2012**	**31 March 2012**
Net debt	2,704	2,696
Regulatory capital value	4,249	4,171
'Financial reserves'	**1,545**	**1,475**
Regulatory gearing	64%	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 been steadily improved, such that gearing has fallen to 64% as at 30 September 2012 and 'financial reserves' (RCV less net debt) are £1.5 billion.

General overview and business update cont'd

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £153 million before grants and contributions (2011: £113 million). Of that £153 million, £92 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £118 million is classed as capital maintenance. We have invested £657 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 19 June 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 30 September 2012, undrawn credit facilities and cash (excluding the debt service reserve account deposits of £66m) amounted to £430 million, including undrawn revolving credit and European Investment Bank facilities of £140 million and £75 million respectively. The Company continues to adopt a prudent policy for investing cash and short term cash deposits. Counterparties for short term cash deposits (of up to one month) are generally placed with AAA rated liquidity funds, UK clearing banks with a minimum rating of A/A2/A and other banks with a minimum long term credit rating of A+/A1/A+ from S&P, Moody's and Fitch. Longer term deposits over one month are limited to counterparties that are rated AAA/Aaa/AAA by S&P, Moody's and Fitch.

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 17,000km 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 30 September 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.

Proposed licence modifications

On 26 October 2012, Ofwat published a consultation on proposals to modify the conditions of appointments (licences) of 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/industrystructure/lic_pro20121026s13all.pdf. The document is a notice under section 13 of the Water Industry Act 1991. Stakeholders are invited to send comments to Ofwat on the proposed licence modification by 23 November 2012.

Corporate Governance

The company’s AGM was held on Friday 6 July 2012. All resolutions were approved by members.

Investors

The company’s annual investor meeting was held on Monday 16 July 2012 in London.

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 30 September 2012 £m	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m
Turnover	182.0	359.9	345.8
Less: operating expenses	(69.8)	(139.8)	(131.9)
Earnings before interest, taxation, depreciation and amortisation	112.2	220.1	213.9
Working capital movements	(13.9)	(15.9)	0.3
Non bond-related interest paid	(0.5)	(1.2)	(3.0)
Interest capitalised in accordance with IAS 23	(2.1)	(3.6)	(3.7)
Interest received	3.9	5.0	2.6
Net operating cash flow and interest received	99.6	204.4	210.1
New borrowings:			
Class B bonds	-	-	128.1
European Investment Bank	-	-	25.0
Utilisation of reserves:			
Cash transferred to capex reserve	(26.9)	(139.6)	(101.3)
Cash utilised from capex reserve	26.9	124.6	76.3
Capital expenditure:			
Net profit on disposal of assets	0.1	0.1	-
Infrastructure renewals expenditure	(30.2)	(48.6)	(31.6)
Non-infrastructure maintenance	(20.8)	(39.8)	(34.2)
Enhancement expenditure	(28.9)	(51.2)	(45.0)
Net cash flow after capital expenditure, new borrowings and reserve drawings	19.8	49.9	227.4
Transfer to debt service payments account	(39.7)	(69.7)	(86.9)
Principal repayments	(2.3)	(6.9)	(6.9)
Net cash flow after debt service	(22.2)	(26.7)	133.6
Free cash balances brought forward	237.8	242.3	79.6
Free cash balances carried forward	215.6	215.6	213.2

Consolidated debt service payments

	Payments due & made in 3 months ending 30 September 2012 £m	Amount accrued 30 September 2012 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	-
Interest on senior debt:		
Finance lease interest payments	-	47.8
A1 interest payments	-	10.6
A4 interest payments	6.5	-
A5 interest payments	2.1	-
A6 interest payments	-	0.7
B1 interest payments	-	11.3
B3 interest payments	3.9	-
B4 interest payments	2.3	-
B5 interest payments	0.4	-
B6 interest payments	-	2.7
European Investment Bank loan interest payments	0.5	0.7
KfW IPEX-Bank GmbH loan interest payments	0.1	-
Revolving credit facility commitment fees	0.2	-
Miscellaneous fees	0.1	0.2
	16.2	74.0
Interest rate swaps	2.3	-
Senior interest payments	18.5	74.0
Total debt service payments	18.5	74.0

Glas notes principal balance reconciliation

	Credit rating[1]	Opening balance 1 July 2012 £m	Repayment £m	Indexation £m	Closing balance 30 September 2012 £m
Finance leases[2]		734.1	-	-	734.1
Class A bonds[3]					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		364.7	-	2.6	367.3
A5 notes		118.7	-	(1.0)	117.7
A6 notes[4]		121.3	-	0.8	122.1
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		177.0	-	1.3	178.3
B4 notes		104.7	-	(0.8)	103.9
B5 notes		60.6	-	0.4	61.0
B6 notes		284.1	-	4.7	288.8
European Investment Bank loan		220.0	(2.2)	-	217.8
KfW IPEX-Bank GmbH loan		35.0	-	-	35.0
Local authority loans		1.5	(0.1)	-	1.4
		2,896.7	(2.3)	8.0	2,902.4

[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 £22.1m reflects the principal accrual on the index-linked swap.**

Glas bank account movements

	Opening balance 1 July 2012 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2012 £m
Free cash balances:					
Receipts account	58.6	-	171.8	(177.6)	52.8
Payments account	186.1	-	391.5	(400.1)	177.5
Other bank accounts	(6.9)	3.9	561.3	(573.0)	(14.7)
	237.8	3.9	1,124.6	(1,150.7)	215.6
Debt service payments account:					
Debt service ledger	35.9	-	39.7	(18.5)	57.1
Insurance proceeds ledger	8.5	-	-	-	8.5
	44.4	-	39.7	(18.5)	65.6
Capex reserve account	-	-	26.9	(26.9)	-
	282.2	3.9	1,191.2	(1,196.1)	281.2

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: As at 31 March 2011 £m	Actual: As at 31 March 2012 £m	Projections: As at 31 March 2013 £m	Projections: As at 31 March 2014 £m	Projections: 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
Headroom under gearing policy[1]	118	224	229	241	297
	2,786	2,920	3,005	3,075	3,154
Regulatory capital value (RCV)	3,980	4,171	4,293	4,393	4,506[2]
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] Indicative financial headroom while maintaining gearing at the Board's target of around 70%.

[2] 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 30 September 2012 £m	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m
Turnover	182.0	359.9	345.8
Operating expenditure	(69.8)	(139.8)	(131.9)
EBITDA	112.2	220.1	213.9
Infrastructure renewals expenditure	(31.0)	(51.0)	(30.9)
Depreciation	(39.7)	(79.0)	(74.6)
Operating profit	41.5	90.1	108.4
Interest payable	(27.5)	(55.0)	(52.1)
Indexation of index-linked debt	(8.0)	(14.6)	(25.5)
Interest receivable	3.8	4.9	2.9
Fair value gains/(losses) on financial instruments	18.9	24.7	(129.8)
Profit/(loss) before tax	28.7	50.1	(96.1)
Deferred tax			
Current year movements	(13.7)	(13.7)	29.1
Less: movement on deferred tax asset in pension scheme	0.4	0.4	(5.1)
Effect of change in expected tax rate	11.3	11.3	11.0
Taxation	(2.0)	(2.0)	35.0
Profit/(loss) after tax	26.7	48.1	(61.1)

Statement of comprehensive income (unaudited)	3 months ended 30 September 2012 £m	6 months ended 30 September 2012 £m	6 months ended 30 September 2011 £m
Profit/(loss) for the period	26.7	48.0	(61.1)
Actuarial gina/(loss) in the pension scheme	0.4	0.4	(20.6)
Movement on related deferred tax asset	(0.4)	(0.4)	5.1
Total recognised gains/(losses) for the period	26.7	48.0	(76.6)

Balance sheet (unaudited)

	At 30 September 2012		At 31 March 2012	
	£m	£m	£m	£m
Fixed assets		3,320.4		3,298.4
Current assets and liabilities:				
Debtors and prepayments	329.5		518.2	
Creditors and accruals	(390.5)		(591.4)	
		(61.0)		(73.2)
Total assets less current liabilities		3,259.4		3,225.2
Financing liabilities:				
Bonds	(1,914.1)		(1,899.4)	
Finance leases	(734.1)		(734.1)	
Bank loans (EIB, KfW)	(252.8)		(259.5)	
Other	(1.4)		(1.6)	
	(2,902.4)		(2,894.6)	
Net interest accrual	(83.0)		(101.9)	
	(2,985.4)		(2,996.5)	
Cash and cash equivalents:				
Receipts account	52.8		67.7	
Payments account	177.5		183.1	
Capex reserve account	-		(15.0)	
Debt service payments account	65.6		73.2	
Other bank accounts	(14.7)		(8.5)	
	281.2		300.5	
Net debt		**(2,704.2)**		**(2,696.0)**
Derivative financial instruments		(273.3)		(298.0)
Provisions for liabilities and charges		(52.3)		(52.3)
Net assets before deferred tax		**229.6**		**178.9**
Deferred tax		(258.8)		(256.2)
Net assets		**(29.2)**		**(77.3)**

Compliance Certificate

To: Deutsche Trustee Company Limited **7 November 2012**

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 9 to 12 of the Investor Report issued on today's date.

We also confirm that, in the period from 13 June 2012 (being the date of the last published Compliance Certificate) to 7 November 2012 that:

(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

N C Annett
Director