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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 30 June 2013

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General overview and business update

This quarterly Investor Report covers the three month period ending 30 June 2013. 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 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 year ended 30 June are as follows:

	3 months to 30 June 2013 £m	3 months to 30 June 2012 £m	Change
Revenue	183	178	+3%
Operating costs	76	70	+9%
EBITDA (before infrastructure renewals expenditure)	**107**	**108**	
Net interest (excluding indexation)	22	26	
Capital expenditure (before grants and contributions)	82	66	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the three months to 30 June 2013 is in line with the comparative period last year – Ofwat's RPI & K price increases are largely responsible for the rise in income of some £5 million, offset by an additional £6 million of operating costs.

Revenue in the three months to 30 June 2013 was £183 million, as compared to £178 million in the three months to 30 June 2012. The increase includes the impact of an overall price increase of 4.8% (being the RPI+K adjustment allowed by Ofwat). During the period, 5,000 domestic customers switched to metered charging (2012: 3,500).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £76 million (2012: £70 million) and have increased by 9% principally 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 £29 million (2012: £33 million), including an indexation charge on index-linked debt of £8 million (2012: £7 million).

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

£m	**30 June 2013**	**31 March 2013**
Net debt	2,741	2,744
Regulatory capital value	4,367	4,344
'Financial reserves'	**1,626**	**1,600**
Regulatory gearing	63%	63%

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 30 June 2013 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 £82 million before grants and contributions (2012: £66 million). Of that £82 million, £52 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £72 million is classed as capital maintenance. We have invested £924 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 and 10). 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/B1/-), 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.

Since the last Investor report on 22 July 2013, Fitch reaffirmed Glas Cymru's credit ratings. All ratings have stable outlook.

Financing and liquidity

As at 30 June 2013, undrawn credit facilities and cash (excluding the debt service reserve account deposits of £45 million) amounted to £305 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 30 June 2013.

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.

2014 Price Review

On 25 July 2013, Ofwat published its final methodology and expectations for companies' business plans for the price control period 2015-2020 http://www.ofwat.gov.uk/pricereview/pr14/prs_web201307finalapproach. All appointed water and sewerage and water-only companies in England and Wales must submit their business plan by 2 December 2013.

Corporate governance

The company's AGM was held on Friday 5 July 2013 in London. All resolutions were approved by members.

Investors

The company's annual investor meeting was held on Monday 22 July 2013 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 June 2013 £m	3 months ended 30 June 2012 £m
Revenue	183.1	177.9
Less: operating expenses	(75.7)	(70.0)
Earnings before interest, taxation, depreciation and amortisation	107.4	107.9
Working capital movements	6.1	(2.0)
Non bond-related interest paid	(0.5)	(0.7)
Interest capitalised in accordance with IAS 23	(1.5)	(1.5)
Interest received	3.6	1.1
Net operating cash flow and interest received	115.1	104.8
Utilisation of reserves:		
Cash transferred to capex reserve	(26.2)	(112.7)
Cash utilised from capex reserve	26.2	97.7
Capital expenditure:		
Net profit on disposal of assets	0.1	-
Infrastructure renewals expenditure	(26.6)	(18.4)
Non-infrastructure maintenance	(25.4)	(19.0)
Enhancement expenditure	(27.0)	(22.3)
Net cash flow after capital expenditure, new borrowings and reserve drawings	36.2	30.1
Transfer to debt service payments account	(39.9)	(30.0)
Principal repayments	(4.5)	(4.6)
Net cash flow after debt service	(8.2)	(4.5)
Free cash balances brought forward	97.7	242.3
Free cash balances carried forward	89.5	237.8

Consolidated debt service payments

	Payments due & made in 3 months ending 30 June 2013 £m	Amount accrued 30 June 2013 £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	-
Interest on senior debt:		
Finance lease interest payments	-	40.2
A1 interest payments	21.1	5.2
A4 interest payments	-	3.3
A5 interest payments	-	1.1
A6 interest payments	4.5	0.3
B1 interest payments	22.4	5.6
B3 interest payments	-	2.0
B4 interest payments	-	1.2
B5 interest payments	-	0.2
B6 interest payments	2.7	1.4
European Investment Bank loan interest payments	0.8	0.2
KfW IPEX-Bank GmbH loan interest payments	0.1	0.2
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	0.1	0.2
	52.0	61.1
Interest rate swaps	2.5	-
Senior interest payments	54.5	61.1
Total debt service payments	54.5	61.1

Glas notes principal balance reconciliation

	Credit rating[1]	Opening balance 1 April 2013 £m	Repayment £m	Indexation £m	Closing balance 30 June 2013 £m
Finance leases		616.3	-	-	616.3
Class A bonds[2]					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		373.7	-	2.8	376.5
A5 notes		121.5	-	-	121.5
A6 notes[3]		124.2	-	0.9	125.1
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		181.3	-	1.4	182.7
B4 notes		107.2	-	-	107.2
B5 notes		62.1	-	0.5	62.6
B6 notes		293.3	-	2.1	295.4
European Investment Bank loan		211.0	(4.5)	-	206.5
KfW IPEX-Bank GmbH loan		35.0	-	-	35.0
Local authority loans		1.3	-	-	1.3
		2,801.9	(4.5)	7.7	2,805.1

[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 £25.1m reflects the principal accrual on the index-linked swap.**

Glas bank account movements

	Opening balance 1 April 2013 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2013 £m
Free cash balances:					
Receipts account	74.2	-	194.8	(210.5)	58.5
Payments account	20.7	-	446.9	(431.4)	36.2
Other bank accounts	2.8	3.6	431.1	(442.7)	(5.2)
	97.7	3.6	1,072.8	(1,084.6)	89.5
Debt service payments account:					
Debt service ledger	51.2	-	39.9	(54.5)	36.6
Insurance proceeds ledger	8.5	-	-	-	8.5
	59.7		39.9	(54.5)	45.1
Capex reserve account	-	-	26.2	(26.2)	-
	157.4	3.6	1,138.8	(1,165.3)	134.6

Interest cover ratio (ICR) – 5 years to 31 March 2015 (based on 2013 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	716	730	763
Operating expenditure	(265)	(273)	(295)	(299)	(301)
Pre capital maintenance cash flows	412	422	421	431	462
Capital maintenance expenditure	(97)	(169)	(203)	(141)	(129)
Post capital maintenance cash flows	315	253	219	290	333
Net interest (excluding indexation)	(132)	(140)	(102)	(124)	(133)
Capital expenditure	(131)	(84)	(122)	(192)	(169)
Pre-financing cash flows	52	29	(5)	(26)	31
Interest payable on senior debt:					
Finance leases	(2)	9	(4)	31	32
Class A	41	39	40	40	40
Class B	37	40	41	42	43
MBIA financial guarantee fees	4	4	4	5	5
Interest rate swaps	41	45	12	9	9
Authorised loans	2	4	12	4	7
Less interest receivable	(4)	(5)	(7)	(7)	(3)
Total net senior debt interest	120	136	98	124	133
Interest payable on junior debt:					
Class C (including £6m premium on early redemption)	9	-	-	-	-
Other	3	4	4	-	-
Total interest payable	132	140	102	124	133
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.4	3.1	4.3	3.5	3.5
Total interest cover pre capital maintenance	3.1	3.0	4.1	3.5	3.5
Senior interest cover post capital maintenance (trigger 1.0)	2.6	1.9	2.2	2.3	2.5
Total interest cover post capital maintenance	2.4	1.8	2.2	2.3	2.5

Regulatory asset ratio (RAR) – 5 years to 31 March 2015 (based on 2013 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	Actual 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	616	608	559
Class A	922	950	969	985	1,003
Class B	796	949	969	992	1,012
Net interest accrual on senior debt	56	102	99	38	47
Authorised loans	248	260	246	308	392
Total senior gross debt	2,764	2,995	2,899	2,931	3,013
Less: cash balances and authorised investments	98	(301)	(157)	(103)	(173)
Total senior net debt	2,666	2,694	2,742	2,828	2,840
Local authority loans	2	2	1	1	1
Total net debt	2,668	2,696	2,744	2,829	2,841
Regulatory capital value (RCV)	3,980	4,171	4,344	4,493	4,745[1]
Reserves (RCV less total net debt)	1,312	1,475	1,600	1,664	1,904
Regulatory asset ratio:					
RAR (Senior) (trigger 90%; default 95%)	67%	65%	63%	63%	60%
RAR (Total debt)	67%	65%	63%	63%	60%

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

Income statement (unaudited)

	3 months ended 30 June 2013 £m	3 months ended 30 June 2012 £m
Revenue	183.1	177.9
Operating expenditure	(75.7)	(70.0)
EBITDA	107.4	107.9
Infrastructure renewals expenditure	(26.4)	(20.0)
Depreciation	(40.6)	(39.4)
Operating profit	40.4	48.5
Interest payable	(25.2)	(27.5)
Indexation of index-linked debt	(7.7)	(6.6)
Interest receivable	3.6	1.1
Fair value gains on financial instruments	74.6	5.8
Loss before tax	85.7	21.3
Taxation	-	-
Profit after tax	85.7	21.3

Statement of comprehensive income (unaudited)

	3 months ended 30 June 2013 £m	3 months ended 30 June 2012 £m
Profit for the period	85.7	21.3
Actuarial gain/(loss) in the pension scheme	-	-
Movement on related deferred tax asset	-	-
Total recognised (losses)/gains for the period	85.7	21.3

Balance sheet (unaudited)

	At 30 June 2013		At 31 March 2013	
	£m	£m	£m	£m
Fixed assets		3,417.7		3,402.2
Current assets and liabilities:				
Debtors and prepayments	429.0		533.7	
Creditors and accruals	(515.3)		(610.4)	
		(86.3)		(76.7)
Total assets less current liabilities		3,331.4		3,325.5
Financing liabilities:				
Bonds	(1,946.0)		(1,938.4)	
Finance leases	(616.3)		(616.3)	
Bank loans (EIB, KfW)	(241.5)		(246.0)	
Other	(1.3)		(1.3)	
	(2,805.1)		(2,802.0)	
Net interest accrual	(70.0)		(98.8)	
	(2,875.1)		(2,900.8)	
Cash and cash equivalents:				
Receipts account	58.5		74.2	
Payments account	36.2		20.7	
Capex reserve account	-		-	
Debt service payments account	45.1		59.7	
Other bank accounts	(5.2)		2.8	
	134.6		157.4	
Net debt		**(2,740.5)**		**(2,743.4)**
Derivative financial instruments		(284.6)		(359.2)
Provisions for liabilities and charges		(51.3)		(53.4)
Net assets before deferred tax		**255.0**		**169.5**
Deferred tax		(243.9)		(243.9)
Net assets		**11.1**		**(74.4)**