



Investor Report

For the quarter ended 30 September 2013

Important Notice

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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General overview and business update

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

	6 months to 30 September 2013 £m	6 months to 30 September 2012 £m	Change
Revenue	368	360	+2%
Operating costs	150	140	+7%
EBITDA (before infrastructure renewals expenditure)	218	220	
Net interest (excluding indexation)	45	50	
Capital expenditure (before grants and contributions)	178	153	

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 2013 is broadly in line with the comparative period last year – Ofwat's RPI + K price increases are largely responsible for the rise in income of some £8 million, offset by an additional £10 million of operating costs.

Revenue in the six months to 30 September 2013 was £368 million, as compared to £360 million in the six months to 30 September 2012. The increase includes the impact of an overall price increase of 2.6% (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 £150 million (2012: £140 million) and have increased by 7% principally due to increased energy costs, a higher bad debt charge, additional expenditure necessary to maintain operations during the failure of the Daniel Contracting Limited business and the impact of general inflation.

Net interest payable in the period (excluding fair value movements) was £45 million (2012: £50 million), including an indexation charge on index-linked debt of £16 million (2012: £15 million).

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

£m	30 September 2013	31 March 2013
Net debt	2,763	2,744
Regulatory capital value	4,409	4,344
'Financial reserves'	1,646	1,600
Regulatory gearing	63%	63%

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 63% as at 30 September 2013 and 'financial reserves' (RCV less net debt) are over £1.6 billion.

General overview and business update cont'd

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £178 million before grants and contributions (2012: £153 million). Of that £178 million, £101 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £150 million is classed as capital maintenance. We have invested £1,021 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 11 and 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 shown in the table below. All ratings have stable outlook.

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.

Financing and liquidity

As at 30 September 2013, undrawn credit facilities and cash (excluding the debt service reserve account deposits of £67 million) amounted to £269 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

Account Bank Agreements

Both Dwr Cymru Cyfyngedig (DCC) and Dwr Cymru (Financing) Limited (“Issuer”) have account bank agreements with National Westminster Bank plc (“Natwest”). Under these agreements, Natwest is required to hold a minimum short term rating of at least two of A1/P1/F1 (S&P/Moody’s/Fitch). On 7 November 2013, Natwest’s short term rating was downgraded by S&P from A1 to A2, so that the bank’s short term rating is now A2/P2/F1.

In consequence, the account bank agreements require the appointment of NatWest to be terminated forthwith and a substitute bank appointed that meets the minimum rating requirement of at least two short term ratings of A1/P1/F1. The security trustee has been notified of the downgrade and it is intended that the security trustee will be requested to grant a temporary waiver of the requirement to terminate the appointment of Natwest under the two account bank agreements.

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 Deganwy, North Wales. 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@dwrwymru.com.

Consolidated cash flow

	6 months ended 30 September 2013 £m	6 months ended 30 September 2012 £m
Revenue	368.1	359.9
Less: operating expenses	(150.2)	(139.8)
Earnings before interest, taxation, depreciation and amortisation	217.9	220.1
Working capital movements	(2.5)	(15.9)
Non bond-related interest paid	(1.0)	(1.2)
Interest capitalised in accordance with IAS 23	(4.9)	(3.6)
Interest received	4.5	5.0
Net operating cash flow and interest received	214.0	204.4
Utilisation of reserves:		
Cash transferred to capex reserve	(52.4)	(139.6)
Cash utilised from capex reserve	52.4	124.6
Capital expenditure:		
Net profit on disposal of assets	0.2	0.1
Infrastructure renewals expenditure	(43.7)	(48.6)
Non-infrastructure maintenance	(55.4)	(39.8)
Enhancement expenditure	(68.4)	(51.2)
Net cash flow after capital expenditure, new borrowings and reserve drawings	46.7	49.9
Transfer to debt service payments account	(84.1)	(69.7)
Principal repayments	(6.9)	(6.9)
Net cash flow after debt service	(44.2)	(26.7)
Free cash balances brought forward	97.7	242.3
Free cash balances carried forward	53.5	215.6

Consolidated debt service payments

	Payments due & made in 6 months ending 30 September 2013 £m	Amount accrued 30 September 2013 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	-
Interest on senior debt:		
Finance lease interest payments	-	41.9
A1 interest payments	-	10.5
A4 interest payments	6.7	-
A5 interest payments	2.1	-
A6 interest payments	-	0.7
B1 interest payments	-	11.2
B3 interest payments	4.0	-
B4 interest payments	2.3	-
B5 interest payments	0.4	-
B6 interest payments	2.8	-
European Investment Bank loan interest payments	0.3	0.4
KfW IPEX-Bank GmbH loan interest payments	0.1	-
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	0.1	0.1
	19.1	64.8
Interest rate swaps	2.8	-
Senior interest payments	21.9	64.8
Total debt service payments	21.9	64.8

Glas notes principal balance reconciliation

	Credit rating ¹	Opening balance 1 July 2013 £m	Repayment £m	Indexation £m	Closing balance 30 September 2013 £m
Finance leases		616.3	-	-	616.3
Class A bonds²					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		376.5	-	2.8	379.3
A5 notes		121.5	-	0.1	121.6
A6 notes ³		125.1	-	0.9	126.0
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		182.7	-	1.4	184.1
B4 notes		107.2	-	0.1	107.3
B5 notes		62.6	-	0.4	63.0
B6 notes		295.4	-	2.1	297.5
European Investment Bank loan		206.5	(2.3)	-	204.2
KfW IPEX-Bank GmbH loan		35.0	-	-	35.0
Local authority loans		1.3	(0.1)	-	1.2
		2,805.1	(2.4)	7.8	2,810.5

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 £26.0m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 July 2013 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2013 £m
Free cash balances:					
Receipts account	58.5	-	177.9	(181.6)	54.8
Payments account	36.2	-	409.1	(427.3)	18.0
Other bank accounts	(5.2)	0.8	343.2	(366.5)	(27.8)
	89.4	0.8	930.2	(975.4)	45.0
Debt service payments account:					
Debt service ledger	36.6	-	44.2	(21.9)	58.9
Insurance proceeds ledger	8.5	-	-	-	8.5
	45.1		44.2	(21.9)	67.4
Capex reserve account	-	-	26.2	(26.2)	-
	134.5	0.8	1,009.1	(1,023.5)	120.9

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			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	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	4,745¹
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)

	6 months ended 30 September 2013 £m	6 months ended 30 September 2012 £m
Revenue	368.1	359.9
Operating expenditure	(150.2)	(139.8)
EBITDA	217.9	220.1
Infrastructure renewals expenditure	(44.6)	(51.0)
Depreciation	(81.2)	(79.0)
Operating profit	92.4	90.1
Interest payable	(49.4)	(55.0)
Indexation of index-linked debt	(15.5)	(14.6)
Interest receivable	4.5	4.9
Fair value gains on financial instruments	74.1	24.7
Profit before tax	106.1	50.1
Taxation	10.2	(2.0)
Profit after tax	116.3	48.1

Statement of comprehensive income (unaudited)

	6 months ended 30 September 2013 £m	6 months ended 30 September 2012 £m
Profit for the period	116.3	48.0
Actuarial gain in the pension scheme	4.6	0.4
Movement on related deferred tax asset	(1.7)	(0.4)
Total recognised gains for the period	119.2	48.0

Balance sheet (unaudited)

	At 30 September 2013		At 31 March 2013	
	£m	£m	£m	£m
Fixed assets		3,458.8		3,402.2
Current assets and liabilities:				
Debtors and prepayments	333.4		533.7	
Creditors and accruals	(419.2)		(610.4)	
		(85.8)		(76.7)
Total assets less current liabilities		3,373.0		3,325.5
Financing liabilities:				
Bonds	(1,953.8)		(1,938.4)	
Finance leases	(616.3)		(616.3)	
Bank loans (EIB, KfW)	(239.3)		(246.0)	
Other	(1.2)		(1.3)	
	(2,810.6)		(2,802.0)	
Net interest accrual	(73.4)		(98.8)	
	(2,884.0)		(2,900.8)	
Cash and cash equivalents:				
Receipts account	54.8		74.2	
Payments account	18.0		20.7	
Capex reserve account	-		-	
Debt service payments account	67.4		59.7	
Other bank accounts	(19.3)		2.8	
	120.9		157.4	
Net debt		(2,763.1)		(2,743.4)
Derivative financial instruments		(285.0)		(359.2)
Provisions for liabilities and charges		(44.9)		(53.4)
Net assets before deferred tax		280.0		169.5
Deferred tax		(235.4)		(243.9)
Net assets/(liabilities)		44.6		(74.4)

Compliance Certificate

To: Deutsche Trustee Company Limited

14 November 2013

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 11 and 12 of the Investor Report issued on today's date.

We also confirm that, in the period six months to 30 September 2013 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

P D Perry
Director