



## **Investor Report**

**For the quarter ended 31 March 2016**

# Important Notice

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## General overview and business update

This quarterly Investor Report covers the three month period ending 31 March 2016. 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](http://www.dwrcymru.com)).

### Financial performance (unaudited)

Summary financial results for the year ended 31 March are as follows:

	Year to 31 March 2016 £m	Year to 31 March 2015 £m	Change
Revenue	743	752	-1%
Operating costs	(297)	(294)	1%
Exceptional items	20	(20)	
<b>EBITDA (before IRE)</b>	<b>466</b>	<b>439</b>	<b>+6%</b>
Net interest (excluding indexation)	(109)	(116)	
Capital expenditure (before grants and contributions)	(279)	(379)	

## General overview and business update (continued)

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2016 is £27 million higher than the comparative period last year – a business rates rebate of £20 million has more than offset the increase in operating costs of £3m and the reduction in revenue following Ofwat's PR14 price determination.

Revenue in the year to 31 March 2016 was £743 million, as compared to £752 million in the year to 31 March 2015. There has been an overall price decrease driven principally by the revenue adjustment allowed by Ofwat (reduction of 1%).

Operating costs (excluding depreciation, infrastructure renewals expenditure and exceptional items) of £297 million are broadly in line with last year (2015: £294 million): the impact of general inflation, together with increases in operating costs relating to insurance, employment costs, contractors costs and Retail change programme costs, has been partially offset by ongoing efficiencies and a £2 million reduction in the bad debt charge. Exceptional items in the current year comprise £20 million of business rates rebates resulting from the company's challenge of the 2005 water networks assessment; in the prior year a £20 million charge reflected the establishment of the company's AMP6 severance and restructuring programme.

Net interest payable in the year (excluding fair value movements) was £123 million (2015: £145 million), including an indexation charge on index-linked debt of £14 million (2015: indexation charge £29 million). Net interest payable in 2015 included an £8 million accounting profit on lease termination.

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

£m	31 March 2016	31 March 2015
Net debt	2,846	2,884
Regulatory capital value	4,983	4,831
<b>'Financial reserves'</b>	<b>2,137</b>	<b>1,947</b>
Regulatory gearing	57.1%	59.7%

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 57% as at 31 March 2016 and 'financial reserves' (RCV less net debt) are £2.1 billion.

## General overview and business update (continued)

### Capital investment programme

Capital investment (including infrastructure renewals expenditure) after grants and contribution was £262 million (2015: £364 million). Of that £262 million, £149 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £213 million is classed as capital maintenance.

### 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 for the five years to 31 March 2020. These projected ratios are derived from Glas Cymru's 2016 financial plan (which has been prepared by the company) 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 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 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*	A3 (+ve)	A	A
B	A3 (+ve)	A	A

\*The credit ratings of the company's Class A Bonds, which are guaranteed by MBIA (BB/Ba2/-), 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.

The Moody's A3 rating was placed on positive outlook on 27 February 2015.

### Financing and liquidity

As at 31 March 2016, undrawn credit facilities and cash (excluding the debt service payments account deposits of £13 million) amounted to £360 million, including undrawn EIB, KfW and revolving credit facilities of £280 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.

On 17 May 2016 the company drew £70 million, being the final tranche of an EIB facility.

## **General overview and business update (continued)**

### **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%. The Board is considering its customer distribution policy as it is likely that there will be headroom to make distributions while maintaining gearing at around 60%. A customer rebate of £7 million to fund social tariffs for financially disadvantaged customers was transferred to the Customer Reserve Account for the year ended 31 March 2016 and is included in the “transfers to ‘customer reserves’”.

### **Group restructure**

In the year to 31 March 2016, the company has considered how the purpose of the business needs to evolve in light of external changes to the regulatory environment within which it operates. This led to the restructure of the Glas Cymru Group to establish a new holding company as the parent of Glas Cymru Anghyfyngedig, namely Glas Cymru Holdings Cyfyngedig. This company is also limited by guarantee (‘not-for-profit’) and is prohibited from paying dividends or making other distributions to its Members. The changes allow for the creation of new subsidiary companies and limited commercial activities. This will be led by a new Commercial Team and funded using Welsh Water’s financial surpluses subject to a cap of £100 million.

### **Investor meeting**

The company’s annual investor meeting will be held at 11.00 am on Monday 18 July 2016 at the offices of BNP Paribas, 5 Aldermanbury Square, London, EC2V 7BP. Please contact Mary Jones/Jemma Barker on 01443 452353 or send an email request to [investors@dwrwymru.com](mailto:investors@dwrwymru.com) if you would like to attend.

## Consolidated cash flow (unaudited)

	3 months ended 31 March 2016 £m	12 months ended 31 March 2016 £m	12 months ended 31 March 2015 £m
Revenue	189.7	743.2	752.5
Less: operating expenses	(73.3)	(277.3)	(314.2)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>116.4</b>	<b>465.9</b>	<b>438.3</b>
Working capital movements	36.2	45.8	39.4
Non bond-related interest paid	(1.0)	(2.6)	(3.0)
Interest capitalised in accordance with IAS 23	0.7	(3.9)	(6.0)
Interest received	0.7	5.6	3.1
<b>Net operating cash flow and interest received</b>	<b>153.0</b>	<b>510.8</b>	<b>471.8</b>
<b>New borrowings</b>			
European Investment Bank	-	-	160.0
<b>Utilisation of reserves:</b>			
Cash transferred to capex reserve	(2.4)	(14.1)	(208.4)
Cash utilised from capex reserve	20.7	107.4	123.3
Net cash utilised from other reserves	1.0	6.2	-
<b>Capital expenditure:</b>			
Net profit on disposal of assets	-	-	0.1
Infrastructure renewals expenditure	(12.0)	(57.9)	(56.1)
Non-infrastructure maintenance	(22.3)	(90.7)	(106.4)
Capital expenditure	(33.6)	(112.7)	(206.6)
<b>Net cash flow after capital expenditure, new borrowings and reserve drawings</b>	<b>104.4</b>	<b>349.0</b>	<b>177.7</b>
Transfer to debt service payments account	(66.5)	(204.4)	(126.7)
Transfer to insurance proceeds ledger	-	(0.4)	-
Principal repayments	(53.9)	(98.2)	(80.2)
<b>Net cash flow after debt service</b>	<b>(16.0)</b>	<b>46.0</b>	<b>(29.2)</b>
Free cash balances brought forward	55.3	(6.7)	22.5
<b>Free cash balances carried forward</b>	<b>39.3</b>	<b>39.3</b>	<b>(6.7)</b>



## Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 31 March 2016 £m	Amount accrued 31 March 2016 £m
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	0.3	0.1
<b>Interest on senior debt:</b>		
Finance lease interest payments	54.5	46.4
A1 interest payments	21.1	-
A4 interest payments	7.0	-
A5 interest payments	2.3	-
A6 interest payments	4.5	-
B1 interest payments	22.4	-
B3 interest payments	4.2	-
B4 interest payments	2.5	-
B5 interest payments	0.5	-
B6 interest payments	2.9	-
European Investment Bank loan interest payments	0.2	0.9
KfW IPEX-Bank GmbH loan	0.2	-
MBIA wrapping fee	4.4	-
Miscellaneous fees	0.2	0.2
	<b>127.2</b>	<b>47.6</b>
Interest rate swaps	(1.3)	-
RPI bond swaps	9.6	-
	<b>8.3</b>	<b>-</b>
<b>Total debt service payments</b>	<b>135.5</b>	<b>47.6</b>

## Glas notes principal balance reconciliation (unaudited)

	Credit rating <sup>1</sup>	Opening balance 1 January 2016 £m	Repayment £m	Indexation £m	Closing balance 31 March 2016 £m
Finance leases		507.2	(51.4)	-	455.8
<b>Class A bonds<sup>2</sup></b>					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		398.1	-	1.0	399.1
A5 notes		129.6	-	0.3	129.9
A6 notes <sup>3</sup>		132.3	-	0.3	132.6
<b>Class B bonds</b>					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		193.1	-	0.5	193.6
B4 notes		114.3	-	0.3	114.6
B5 notes		66.1	-	0.2	66.3
B6 notes		308.1	-	0.8	308.9
European Investment Bank loan		409.2	(2.3)	(0.5)	406.4
Local authority loans		0.9	(0.2)	-	0.7
		<b>2,933.9</b>	<b>(53.9)</b>	<b>2.9</b>	<b>2,882.9</b>

<sup>1</sup> Moody's/S&P/Fitch.

<sup>2</sup> Guaranteed by MBIA rated Ba2/BB /-. Class A bond ratings default to their higher underlying ratings of A3/A/A.

<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 £32.6m has been recognised in this table.

## Glas bank account movements (unaudited)

	Opening balance 1 January 2016 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2016 £m
<b>Free cash balances:</b>					
Receipts account	9.9	-	240.5	(187.5)	62.9
Payments account	39.8	-	355.5	(426.3)	(31.0)
Other bank accounts	5.6	0.7	658.1	(657.0)	7.4
	55.3	0.7	1,254.1	(1,270.8)	39.3
<b>Debt service payments account:</b>					
Debt service ledger	73.0	-	66.5	(135.5)	4.0
Insurance proceeds ledger	8.5	-	-	-	8.5
	81.5	-	66.5	(135.5)	12.5
<b>Capex reserve account</b>	53.8	-	2.4	(20.7)	35.5
<b>Customer payments account:</b>					
Customer rebate ledger	1.0	-	5.0	(1.0)	5.0
	191.6	0.7	1,328.0	(1,428.0)	92.3

## 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	Year to 31 March 2017	Year to 31 March 2018	Year to 31 March 2019	Year to 31 March 2020
	£m	£m	£m	£m	£m
Income	750	755	764	775	789
Operating expenditure	(277)	(316)	(310)	(312)	(314)
<b>Pre capital maintenance cash flows</b>	<b>473</b>	<b>439</b>	<b>454</b>	<b>463</b>	<b>475</b>
Capital maintenance expenditure <sup>1</sup>	(149)	(152)	(156)	(160)	(164)
<b>Post capital maintenance cash flows</b>	<b>324</b>	<b>287</b>	<b>298</b>	<b>303</b>	<b>311</b>
Net interest (excluding indexation and capitalisation)	(113)	(117)	(123)	(126)	(127)
Capital expenditure <sup>1</sup>	(113)	(201)	(197)	(221)	(201)
Increase in 'customer reserves' <sup>2</sup>	(7) <sup>3</sup>	(174)	(50)	(29)	(95)
<b>Pre-financing cash flows</b>	<b>91</b>	<b>(205)</b>	<b>(72)</b>	<b>(73)</b>	<b>(112)</b>
<b>Interest payable on senior debt:</b>					
Finance leases	6	9	10	12	12
Class A	44	42	42	42	43
Class B	42	42	43	44	44
MBIA financial guarantee fees	4	5	5	5	5
Interest rate and RPI swaps	17	17	16	15	14
Authorised loans	6	7	12	15	15
Less interest receivable	(6)	(5)	(5)	(7)	(6)
<b>Total interest payable</b>	<b>113</b>	<b>117</b>	<b>123</b>	<b>126</b>	<b>127</b>
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.2	3.8	3.7	3.7	3.7
Interest cover post capital maintenance (trigger 1.0)	2.9	2.5	2.4	2.4	2.4

<sup>1</sup> The projected split between capital and maintenance expenditure assumes a steady level of maintenance activity from 2016 onwards.

<sup>2</sup> Projected values are forecast 'headroom' in the 2016 financial plan to balance gearing to the Glas Board's target of around 60% (see page 10). It represents amounts that may be returned to customers or used to fund additional investment for the benefit of customers.

<sup>3</sup> This figure is the total value of revenue foregone in order to fund social tariffs in the year.

## 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	463	454	443	431
Class A	1,012	1,012	1,022	1,033	1,045
Class B	1,008	1,033	1,053	1,075	1,099
Net interest accrual on senior debt	55	50	51	51	51
Authorised loans (including assumed borrowings to balance gearing to 60%; see page 10)	407	633	732	832	974
<b>Total senior gross debt</b>	<b>2,938</b>	<b>3,191</b>	<b>3,312</b>	<b>3,434</b>	<b>3,600</b>
Less: cash balances and authorised investments	(92)	(100)	(100)	(100)	(100)
<b>Total net debt</b>	<b>2,846</b>	<b>3,091</b>	<b>3,212</b>	<b>3,334</b>	<b>3,500</b>
<b>Regulatory capital value (RCV)</b>	<b>4,983</b>	<b>5,151</b>	<b>5,354</b>	<b>5,556</b>	<b>5,833</b>
<b>Reserves (RCV less total net debt)</b>	<b>2,137</b>	<b>2,060</b>	<b>2,142</b>	<b>2,222</b>	<b>2,333</b>
<b>Regulatory asset ratio:</b>					
RAR (trigger 90%; default 95%)	57%	60%	60%	60%	60%

For the purpose of calculating regulatory gearing, cumulative indexation of £33m 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%.

## Income statement (unaudited)

	3 months ended 31 March 2016 £m	12 months ended 31 March 2016 £m	12 months ended 31 March 2015 £m
Revenue	189.7	743.2	752.5
Operating expenditure	(73.3)	(277.3)	(314.2)
<b>EBITDA</b>	<b>116.4</b>	<b>465.9</b>	<b>438.3</b>
Infrastructure renewals expenditure	(14.8)	(58.0)	(57.7)
Depreciation	(63.0)	(247.1)	(178.5)
<b>Operating profit</b>	<b>38.6</b>	<b>160.8</b>	<b>202.1</b>
Interest payable	(37.8)	(114.3)	(119.3)
Indexation of index-linked debt	(2.9)	(15.8)	(28.6)
Interest receivable	0.7	5.6	3.3
Fair value (losses)/gains on financial instruments	(57.4)	40.7	(157.1)
<b>(Loss)/profit before tax</b>	<b>(58.8)</b>	<b>77.0</b>	<b>(99.6)</b>
Taxation	35.1	8.9	19.5
<b>(Loss)/profit after tax</b>	<b>(23.7)</b>	<b>85.9</b>	<b>(80.1)</b>

## Statement of comprehensive income (unaudited)

	3 months ended 31 March 2016	12 months ended 31 March 2016	12 months ended 31 March 2015
	£m	£m	£m
(Loss)/profit for the period	(23.7)	85.9	(80.1)
Actuarial loss in the pension scheme	(5.6)	(24.6)	(32.2)
Movement on related deferred tax asset	-	3.7	5.9
<b>Items that will not be reclassified to profit or loss:</b>			
Revaluation of property, plant and equipment <sup>1</sup>	95.8	1,247.8	-
Related deferred tax	5.8	(224.6)	-
<b>Total recognised gains/(losses) for the period</b>	<b>72.3</b>	<b>1,088.2</b>	<b>(106.4)</b>

## Statement of changes in reserves (unaudited)

	3 months ended 31 March 2016	12 months ended 31 March 2016	12 months ended 31 March 2015
	£m	£m	£m
(Deficit)/reserves at start of period	-	(6.4)	100.0
Revaluation (net)	101.6	1023.2	-
(Loss)/profit for the period	(23.7)	85.9	(80.1)
Actuarial loss (net)	(5.6)	(20.9)	(26.3)
<b>Reserves at end of period</b>	<b>72.3</b>	<b>1,081.8</b>	<b>(6.4)</b>

<sup>1</sup> The group has decided that a 'fair value' approach to valuing its asset base better reflects the underlying value of the assets than historical cost accounting which understates the assets current value in use. The carrying values of the regulatory assets will be revalued periodically to their economic values at annual intervals starting on 1 April 2015. This change in accounting treatment has given rise to a net revaluation adjustment of £1,023m which is held in a non-distributable revaluation reserve.

## Balance sheet (unaudited)

	At 31 March 2016		At 31 March 2015	
	£m	£m	£m	£m
<b>Fixed assets</b>		<b>4,947.0<sup>1</sup></b>		<b>3,679.0</b>
<b>Current assets and liabilities:</b>				
Debtors and prepayments	552.8		539.1	
Creditors and accruals	(688.3)		(638.7)	
		(135.5)		(99.6)
<b>Total assets less current liabilities</b>		<b>4,811.5</b>		<b>3,579.4</b>
<b>Financing liabilities:</b>				
Bonds	(2,020.0)		(2,005.5)	
Finance leases	(455.8)		(507.2)	
Bank loans (EIB, KfW)	(406.4)		(451.6)	
Other	(0.7)		(0.9)	
	(2,882.9)		(2,965.2)	
Net interest accrual	(54.8)		(66.6)	
	(2,937.7)		(3,031.8)	
<b>Cash and cash equivalents:</b>				
Receipts account	62.9		80.3	
Payments account	(31.0)		(92.4)	
Capex reserve account	35.5		135.0	
Debt service payments account	12.5		19.6	
Customer payments account	5.0		-	
Other bank accounts	7.4		5.5	
	92.3		148.0	
<b>Net debt</b>		<b>(2,845.4)</b>		<b>(2,883.8)</b>
Derivative financial instruments		(381.4)		(422.1)
Provisions for liabilities and charges		(71.0)		(60.1)
<b>Net assets before deferred tax</b>		<b>1,513.7</b>		<b>213.4</b>
Deferred tax		(431.9)		(219.8)
<b>Net assets</b>		<b>1,081.8</b>		<b>(6.4)</b>

<sup>1</sup> Including revaluation to fair value (see page 12)



## Compliance certificate

To: Deutsche Trustee Company Limited

8 June 2016

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 10 of the Investor Report issued on today's date.

We also confirm that in the period to 31 March 2016:

- (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 J Bridgewater  
Director