glas
Glas Cymru Anghyfyngedig

Investor Report

For the quarter ended 31 March 2017

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).

Nothing in this report constitutes an offer of securities for sale in the United States or any other jurisdiction. This announcement does not constitute a prospectus or a prospectus equivalent document.

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General overview and business update

This quarterly Investor Report covers the three-month period ending 31 March 2017. 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 (unaudited)

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

	12 months to 31 March 2017 £m	**12 months to 31 March 2016 £m**	**Change**
Revenue	744	743	+0%
Operating costs	(313)	(297)	+5%
Exceptional items (rates refund)	-	20	-100%
EBITDA (before IRE)	**431**	**466**	**-8%**
Net interest (excluding indexation)	(110)	(109)	
Capital expenditure (before grants and contributions)	(366)	(279)	

General overview and business update (continued)

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2017 is £35 million lower than the comparative period last year – excluding a business rates rebate of £20 million in 2016, operating costs have increased by £16 million.

Revenue in the year to 31 March 2017 was £744 million, as compared to £743 million in the year to 31 March 2016.

Operating costs (excluding depreciation, infrastructure renewals expenditure and exceptional items) of £313 million (2016: £297 million) are higher in comparison with the same period last year; increases in salaries, IT, power, operational contractor costs and investment in our Customer-Led Success and Brand Builder campaigns have been partially offset by a reduction in the bad debt charge and other ongoing efficiencies. In the prior period we also received a £20 million business rates rebate in respect of our longstanding challenge of the 2005 water network rates assessment.

Net interest payable in the period (excluding fair value movements) was £143 million (2016: £125 million) including an indexation charge on index-linked debt of £33m (2016: £16m). £1 million interest was received last year on the backdated £20 million rates refund.

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

£m	**31 March 2017**	**31 March 2016**
Net debt	2,947	2,846
Regulatory capital value	5,217	4,983
‘Financial reserves’	**2,270**	**2,137**
Regulatory gearing	56.5%	57.1%

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 56% as at 31 March 2017 and ‘financial reserves’ (RCV less net debt) have risen to nearly £2.3 billion.

General overview and business update (continued)

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contributions was £366 million (2016: £279 million). Of that £366 million, £161 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £242 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 to 31 March 2020. These projected ratios are derived from Glas Cymru's 2017 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*	A2	A	A
B	A2	A	A

*The credit ratings of the company's Class A Bonds, which are guaranteed by Assured Guaranty (Baa2/A/-), revert to their higher underlying ratings of A2/A/A by Moody's Investor Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch) respectively.

The outlook of all the company's bonds is stable.

General overview and business update (continued)

Financing and liquidity

As at 31 March 2017, undrawn credit facilities and cash amounted to £525 million. This includes undrawn EIB, KfW and revolving credit facilities of £460 million and is sufficient to fund the business for the next three years. All interest bills were paid at 31 March 2017, therefore the balance of the debt service payments account was not material.

On 5 May 2017 the company drew down its £60 million loan facility with KfW bank. The loan will be repaid over 10 years, amortising after five years.

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.

Investor meeting

The company's annual investor meeting will be held at 11.00 am on Wednesday 19 July at the offices of HSBC bank plc, 6th Floor, 71 Queen Victoria Street, London EC4V 4AY. Please contact Mary Jones/Jemma Barker on 01443 452353 or send an email request to investors@dwrcymru.com if you would like to attend.

Consolidated cash flow (unaudited)

	3 months ended 31 March 2017 £m	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Revenue	181.1	743.6	743.2
Less: operating expenses	(79.3)	(312.6)	(277.3)
Earnings before interest, taxation, depreciation and amortisation	101.8	431.0	465.9
Working capital movements	8.9	(12.2)	45.8
Non bond-related interest paid	0.5	(1.8)	(2.6)
Interest capitalised in accordance with IAS 23	(2.3)	(9.5)	(3.9)
Interest received	0.4	3.6	5.6
Net operating cash flow and interest received	109.3	411.1	510.8
Equity dividends paid	(30.2)	(30.2)	-
New borrowings			
European Investment Bank	-	70.0	-
Utilisation of reserves:			
Cash transferred to capex reserve	(1.4)	(80.0)	(14.1)
Cash utilised from capex reserve	35.0	116.1	107.4
Net cash utilised from other reserves	1.7	5.5	6.2
Capital expenditure:			
Net profit on disposal of assets	0.1	-	-
Infrastructure renewals expenditure	(2.0)	(64.8)	(57.9)
Non-infrastructure maintenance	(25.2)	(103.2)	(90.7)
Capital expenditure	(60.0)	(157.0)	(112.7)
Net cash flow after capital expenditure, new borrowings and reserve drawings	27.3	167.5	349.0
Transfer to debt service payments account	(24.2)	(115.9)	(204.4)
Transfer to insurance proceeds ledger	-	-	(0.4)
Principal repayments	(12.9)	(29.8)	(98.2)
Net cash flow after debt service	(9.8)	21.8	46.0
Free cash balances brought forward	70.9	39.3	(6.7)
Free cash balances carried forward	61.1	61.1	39.3

Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 31 March 2017 £m	Amount accrued 31 March 2017 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Interest on senior debt:		
Finance lease interest payments	1.6	48.1
A1 interest payments	21.1	-
A4 interest payments	7.1	-
A5 interest payments	2.3	-
A6 interest payments	4.5	-
B1 interest payments	22.4	-
B3 interest payments	4.3	-
B4 interest payments	2.6	-
B5 interest payments	0.5	-
B6 interest payments	2.9	-
European Investment Bank loan interest payments	0.2	0.8
Revolving credit facility commitment fees	0.2	-
KfW IPEX-Bank GmbH loan interest payments	0.1	-
Assured Guaranty wrap fee	4.4	-
Miscellaneous fees	-	0.1
	74.3	49.1
Interest rate swaps	(1.1)	-
RPI bond swaps	15.5	-
	14.4	49.1
Total debt service payments	88.7	49.1

Glas notes principal balance reconciliation (unaudited)

	Credit rating[1]	Opening balance 1 January 2017 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2017 £m
Finance leases		455.8	-	(9.3)	-	446.5
Class A bonds[2]						
A1 notes	A2/A/A	350.0	-	-	-	350.0
A4 notes		404.7	-	-	1.8	406.5
A5 notes		131.6	-	-	0.6	132.2
A6 notes[3]		132.7	-	-	2.4	135.1
Class B bonds						
B1 notes	A2/A/A	325.0	-	-	-	325.0
B3 notes		196.5	-	-	0.9	197.4
B4 notes		116.0	-	-	0.6	116.6
B5 notes		67.2	-	-	0.3	67.5
B6 notes		313.1	-	-	3.8	316.9
European Investment Bank loan		463.8	-	(3.5)	1.4	461.7
Local authority loans		0.7	-	(0.1)	-	0.6
		2,957.1	-	(12.9)	11.8	2,956.0

[1] Moody's/S&P/Fitch.
[2] Guaranteed by Assured Guaranty rated Baa2/A/- Class A bond ratings default to their higher underlying ratings of A2/A/A.
[3] 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 £35.1m has been recognised in this table.

Glas bank account movements (unaudited)

	Opening balance 1 January 2017 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2017 £m
Free cash balances:					
Receipts account	58.0	-	198.9	(185.5)	71.4
Payments account	10.4	-	380.7	(403.9)	(12.8)
Other bank accounts	2.5	0.3	610.5	(610.8)	2.5
	70.9	0.3	1,190.1	(1,200.2)	61.1
Debt service payments account:					
Debt service ledger	64.5	-	24.2	(88.7)	-
Capex reserve account	33.0	-	1.4	(35.0)	(0.6)
Customer payments account:					
Customer rebate ledger	1.2	-	4.5	(1.7)	4.0
	169.6	0.3	1,220.2	(1,325.6)	64.5

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 £m	Year to 31 March 2017 £m	Year to 31 March 2018 £m	Year to 31 March 2019 £m	Year to 31 March 2020 £m
Income	750	747	759	785	806
Operating expenditure	(277)	(313)	(325)	(324)	(319)
Pre capital maintenance cash flows	**473**	**434**	**434**	**461**	**487**
Capital maintenance expenditure[1]	(149)	(161)	(182)	(182)	(182)
Post capital maintenance cash flows	**324**	**273**	**252**	**279**	**305**
Net interest (excluding indexation and capitalisation)	(113)	(120)	(131)	(143)	(144)
Capital expenditure[1]	(107)	(156)	(159)	(239)	(171)
Increase in 'customer reserves'[2]	(13)[3]	(36)[3]	(80)	(96)	(87)
Pre-financing cash flows	**91**	**(39)**	**(118)**	**(199)**	**(97)**
Interest payable on senior debt:					
Finance leases	6	3	10	12	12
Class A	44	44	42	42	43
Class B	42	42	43	44	44
Assured Guaranty guarantor fees	4	4	5	5	5
Interest rate and RPI swaps	17	23	24	22	18
Authorised loans	6	8	10	21	26
Less interest receivable	(6)	(4)	(3)	(3)	(4)
Total interest payable	**113**	**120**	**131**	**143**	**144**
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.2	3.6	3.3	3.2	3.4
Interest cover post capital maintenance (trigger 1.0)	2.9	2.1	1.9	2.0	2.1

[1] The projected split between capital and maintenance expenditure assumes a flat level of maintenance spend from 2017 onwards.
[2] Projected values are forecast 'headroom' in the 2017 financial plan to balance gearing to the Glas Board's target of around 60% (see page 9). It represents amounts that may be returned to customers or used to fund additional investment for the benefit of customers.
[3] This figure is the total value of revenue foregone in order to fund social tariffs in the year plus the amount spent on additional discretionary investment to benefit customers' experience.

Regulatory asset ratio (RAR) – 5 years to 31 March 2020 (unaudited)

(See important notice at the front of the document)	Actual As at 31 March 2016 £m	 As at 31 March 2017 £m	 As at 31 March 2018 £m	Projection As at 31 March 2019 £m	 As at 31 March 2020 £m
Senior gross debt:					
Finance leases	456	446	405	394	382
Class A	1,012	1,024	1,034	1,051	1,068
Class B	1,008	1,023	1,042	1,059	1,076
Net interest accrual on senior debt	55	57	59	60	61
Authorised loans (including assumed borrowings to balance gearing to around 60%)	407	462	685	885	1,012
Total senior gross debt	**2,938**	**3,012**	**3,225**	**3,449**	**3,599**
Less: cash balances and authorised investments	(92)	(65)	(100)	(100)	(100)
Total net debt	**2,846**	**2,947**	**3,125**	**3,349**	**3,499**
Regulatory capital value (RCV)	4,983	5,217	5,352	5,554	5,758
Shadow RCV	**4,950**	**5,184**	**5,368**	**5,629**	**5,881**
Customer Reserves (Shadow RCV less total net debt)	**2,104**	**2,237**	**2,243**	**2,280**	**2,382**
Regulatory asset ratio (trigger 85%; default 95%)					
RAR	57.1%	56.4%	58.4%	60.3%	60.8%
Shadow RAR	**57.5%**	**56.8%**	**58.2%**	**59.5%**	**59.5%**

For planning purposes, and for considering the level of headroom available for Customer Distributions, we have used a "Shadow RCV". This is the RCV reported above as published by Ofwat in FD14 and uplifted by our inflation assumptions, adjusted for other factors we consider are likely to impact on the RCV during the period.

For the purpose of calculating regulatory gearing, cumulative indexation of £35m 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 2017 £m	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Revenue	181.1	743.6	743.2
Operating expenditure	(79.3)	(312.6)	(277.3)
EBITDA	101.8	431.0	465.9
Infrastructure renewals expenditure	(6.0)	(69.7)	(58.0)
Depreciation	(67.5)	(256.6)	(247.1)
Operating profit	28.3	104.7	160.8
Interest payable	(36.8)	(113.7)	(114.3)
Indexation of index-linked debt	(11.8)	(32.9)	(15.8)
Interest receivable	0.3	3.5	5.6
Fair value gains/(losses) on financial instruments	109.1	(60.5)	40.7
Profit/(loss) before tax	89.1	(98.9)	77.0
Taxation	(5.2)	28.9	8.9
Profit/(loss) after tax	83.9	(70.0)	85.9

Statement of comprehensive income (unaudited)

	3 months ended 31 March 2017 £m	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Profit/(loss) for the period	83.9	(70.0)	85.9
Actuarial profit/(loss) in the pension scheme	45.1	(43.3)	(24.6)
Movement on related deferred tax asset	(8.5)	5.9	3.7
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	43.2	156.8	1,247.8
Related deferred tax	(8.5)	(15.3)	(224.6)
Total comprehensive income	**155.2**	**34.1**	**1,088.2**

Statement of changes in reserves (unaudited)

	3 months ended 31 March 2017 £m	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Reserves at start of period	960.9	1,081.8	(6.4)
Revaluation (net of tax)	34.7	141.5	1023.2
Dividends paid	(30.2)	(30.2)	-
Profit/(loss for the period	84.0	(70.0)	85.9
Actuarial profit/(loss) (net of tax)	36.6	(37.4)	(20.9)
Reserves at end of period	**1,086.0**	**1,085.7**	**1,081.8**

Balance sheet (unaudited)

	At 31 March 2017		At 31 March 2016	
	£m	£m	£m	£m
Fixed assets		**5,184.7**		**4,947.0**
Current assets and liabilities:				
Debtors and prepayments	570.6		552.8	
Creditors and accruals	(761.2)		(688.3)	
		(190.6)		(135.5)
Total assets less current liabilities		**4,994.1**		**4,811.5**
Financing liabilities:				
Bonds	(2,047.2)		(2,020.0)	
Finance leases	(446.5)		(455.8)	
Bank loans (EIB, KfW)	(461.7)		(406.4)	
Other	(0.6)		(0.7)	
	(2,956.0)		(2,882.9)	
Net interest accrual	(55.7)		(54.8)	
	(3,011.7)		(2,937.7)	
Cash and cash equivalents:				
Receipts account	71.4		62.9	
Payments account	(12.8)		(31.0)	
Capex reserve account	(0.6)		35.5	
Debt service payments account	-		12.5	
Customer payments account	4.0		5.0	
Other bank accounts	2.5		7.4	
	64.5		92.3	
Net debt		**(2,947.2)**		**(2,845.4)**
Derivative financial instruments		(441.9)		(381.4)
Provisions for liabilities and charges		(106.0)		(71.0)
Net assets before deferred tax		**1,499.0**		**1,513.7**
Deferred tax		(413.3)		(431.9)
Net assets		**1,085.7**		**1,081.8**

Compliance certificate

To: Deutsche Trustee Company Limited 15 June 2017

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 2017:

(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