



Investor Report

For the quarter ended 30 June 2018

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References to the "Company", "Dŵr Cymru" and "Welsh Water" in this document relate to Dŵr Cymru Cyfyngedig, the sole operating company in the whole business securitisation formed by the Glas Cymru Anghyfyngedig group. References to "Glas Cymru" and the "Group" refer, respectively, to Glas Cymru Anghyfyngedig and the group of which it is the parent.

Contents

	Page
General overview and business update	1
Consolidated cash flow (unaudited)	4
Consolidated debt service payments (unaudited)	5
Dŵr Cymru notes principal balance reconciliation (unaudited)	6
Dŵr Cymru bank account movements (unaudited)	7
Interest cover ratio (ICR) – 5 years to 31 March 2020 (unaudited)	8
Regulatory asset ratio (RAR) – 5 years to 31 March 2020 (unaudited)	9
Income statement (unaudited)	10
Statement of comprehensive income (unaudited)	11
Statement of changes in reserves (unaudited)	11
Balance sheet (unaudited)	12

General overview and business update

This quarterly Investor Report covers the three-month period ended 30 June 2018. 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 three months ended 30 June are as follows:

	3 months to 30 June 2018 £m	3 months to 30 June 2017 £m	Change
Revenue	194	190	+2%
Operating costs	(78)	(77)	+1%
EBITDA (before IRE)	116	113	+3%
Net interest (excluding indexation)	(24)	(24)	
Capital expenditure (before grants and contributions)	(107)	(91)	

General overview and business update (continued)

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the three months to 30 June 2018 is £3 million higher than the comparative period last year.

Revenue in the three months to 30 June 2018 was £194 million, as compared to £190 million in the three months to 30 June 2017.

Operating costs (excluding depreciation, infrastructure renewals expenditure and exceptional items) of £78 million (2017: £77 million) are slightly higher than the same period last year.

Net interest payable in the period (excluding fair value movements) was £34 million (2017: £34 million) including an indexation charge on index-linked debt of £10 million (2017: £10 million).

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

£m	30 June 2018	30 June 2017
Net debt	3,163	2,965
Regulatory capital value	5,548	5,294
'Financial reserves'	2,385	2,329
Regulatory gearing	57.0%	56.0%

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 30 June 2018 (after a small increase over the last year following the increased capital investment programme) and 'financial reserves' (RCV less net debt) have risen to over £2.4 billion.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £107 million (2017: £91 million)

General overview and business update (continued)

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 2018 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 8 and 9). It should be noted that the Group'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 neg	A
B	A2	A	A

*The credit ratings of the Company's Class A Bonds, which are guaranteed by Assured Guaranty (London) plc (BB pos/Baa1 pos/NR), revert to their higher underlying ratings of A2/A neg/A by Moody's Investor Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch) respectively.

On 26 June 2018, S&P affirmed the rating of the bonds as A but with negative outlook.

Financing and liquidity

As at 30 June 2018, undrawn credit facilities and cash amounted to £681 million. This includes undrawn EIB (European Investment Bank) and revolving credit facilities of £420 million and is sufficient to fund the business for the next three years.

In line with prudent policies approved by the Board, cash is invested in AAA-rated liquidity funds and bonds, NatWest (as the Group's account bank) and additional banks subject to minimum short-term rating criteria of A1/P1/F1.

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%. In March 2017 the Company issued a consultation to customers on distributions during the period to 31 March 2020. This consultation is taken into account when the Board determines distributions. Further details of the consultation are available on the Company's website, www.dwrcymru.com.

Consolidated cash flow (unaudited)

	3 months ended 30 June 2018 £m	3 months ended 30 June 2017 £m
Revenue	194.1	189.8
Less: operating expenses	(77.9)	(77.0)
Earnings before interest, taxation, depreciation and amortisation	116.2	112.8
Working capital movements	7.2	(7.8)
Non bond-related interest paid	(1.1)	(0.7)
Interest capitalised in accordance with IAS 23	(4.0)	(3.2)
Interest received	1.3	1.0
Net operating cash flow and interest received	119.6	102.1
New borrowings		
Term loans	-	60.0
Utilisation of reserves:		
Cash transferred to capex reserve	(88.3)	(42.1)
Cash utilised from capex reserve	88.3	41.5
Net cash utilised from other reserves	1.8	16.4
Capital expenditure:		
Net profit on disposal of assets	0.7	0.4
Infrastructure renewals expenditure	(24.0)	(24.2)
Non-infrastructure maintenance	(55.9)	(31.3)
Capital expenditure	(34.3)	(40.5)
Net cash flow after capital expenditure, new borrowings and reserve drawings	7.9	82.3
Transfer to debt service payments account	(37.0)	(27.8)
Principal repayments	(9.8)	(9.8)
Net cash flow after debt service	(38.9)	44.7
Free cash balances brought forward	260.6	58.7
Free cash balances carried forward	221.7	103.4

Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 30 June 2018 £m	Amount accrued 30 June 2018 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Liquidity facility renewal and agency fee	-	-
Interest on senior debt:		
Finance lease interest payments	-	49.8
A1 interest payments	-	5.2
A4 interest payments	-	3.7
A5 interest payments	-	1.2
A6 interest payments	-	0.3
B1 interest payments	-	5.6
B3 interest payments	-	2.3
B4 interest payments	-	1.3
B5 interest payments	-	0.2
B6 interest payments	-	1.6
B7 interest payments	-	3.2
European Investment Bank loan interest payments	1.0	0.4
KfW IPEX-Bank GmbH loan interest payments	0.3	-
Assured Guaranty wrap fee	-	(3.4)
Miscellaneous fees	0.2	-
	1.6	71.5
Interest rate swaps	2.4	-
Total debt service payments	4.0	71.5

Glas notes principal balance reconciliation (unaudited)

	Credit rating ¹	Opening balance 1 April 2018 £m	Repayment £m	Indexation £m	Closing balance 30 June 2018 £m
Finance leases		435.9	-	-	435.9
Class A bonds²	A2/A neg/A				
A1 notes		350.0	-	-	350.0
A4 notes		421.2	-	2.4	423.6
A5 notes		137.0	-	(0.2)	136.8
A6 notes ³		140.0	-	0.8	140.8
Class B bonds	A2/A neg/A				
B1 notes		325.0	-	-	325.0
B3 notes		204.4	-	1.2	205.6
B4 notes		120.8	-	(0.2)	120.6
B5 notes		69.9	-	0.4	70.3
B6 notes		329.4	-	3.5	332.9
B7 notes		300.0	-	-	300.0
European Investment Bank loans		509.7	(9.8)	1.6	501.5
Local authority loans		0.6	-	-	0.6
		3,343.9	(9.8)	9.5	3,343.6

¹ Moody's/S&P/Fitch.

² Guaranteed by Assured Guaranty Ltd rated BB pos/Baa1 pos/NR. Class A bond ratings default to their higher underlying ratings of A2/A neg/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 £40.8m has been recognised in this table.

Glas bank account movements (unaudited)

	Opening balance 1 April 2018 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2018 £m
Free cash balances:					
Receipts account	76.7	-	210.9	(223.8)	63.8
Payments account	183.7	-	572.3	(598.3)	157.7
Other bank accounts	0.2	1.3	330.4	(331.7)	0.2
	260.6	1.3	1,113.6	(1,153.8)	221.7
Debt service payments account:					
Debt service ledger	1.2	-	37.0	(4.0)	34.2
Capex reserve account	-	-	88.3	(88.3)	-
Customer payments account:					
Customer rebate ledger	7.3	-	-	(1.8)	5.5
	269.1	1.3	1,238.9	(1,247.9)	261.4

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	764	780	811
Operating expenditure	(277)	(313)	(319)	(312)	(304)
Pre capital maintenance cash flows	473	434	445	468	507
Capital maintenance expenditure ¹	(149)	(161)	(245)	(279)	(191)
Post capital maintenance cash flows	324	273	200	189	316
Net interest (excluding indexation and capitalisation)	(113)	(120)	(133)	(145)	(147)
Capital expenditure ¹	(107)	(156)	(112)	(129)	(170)
Customer Distributions ²	(13)	(36)	(81)	(84)	(94)
Pre-financing cash flows	91	(39)	(126)	(169)	(95)
Interest payable on senior debt:					
Finance leases	6	3	3	4	9
Class A	44	44	45	47	47
Class B	42	42	44	49	50
Assured Guaranty guarantor fees	4	4	4	5	5
Interest rate and RPI swaps	17	24	33	30	20
Authorised loans	6	7	8	14	20
Less interest receivable	(6)	(4)	(4)	(4)	(4)
Total interest payable	113	120	133	145	147
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.2	3.6	3.3	3.2	3.5
Interest cover post capital maintenance (trigger 1.0)	2.9	2.3	1.5	1.3	2.2

¹ The projected split between capital and maintenance expenditure assumes a flat level of maintenance spend from 2017 onwards.

² 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. Note that the values include immaterial amounts of non-regulated income and expenditure.

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

	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
(See important notice at the front of the document)					
Senior gross debt:					
Finance leases	456	446	436	423	412
Class A	1,012	1,024	1,048	1,071	1,092
Class B	1,008	1,023	1,350	1,376	1,397
Net interest accrual on senior debt	55	57	57	51	50
Authorised loans (including assumed borrowings to balance gearing to around 60%)	407	462	510	608	742
Total senior gross debt	2,938	3,012	3,401	3,529	3,693
Less: cash balances and authorised investments	(92)	(62)	(283)	(100)	(100)
Total net debt	2,846	2,950	3,118	3,429	3,593
Regulatory capital value (RCV)	4,983	5,217	5,468	5,766	6,006
Shadow RCV	4,950	5,184	5,458	5,840	6,126
Customer Reserves (Shadow RCV less total net debt)	2,104	2,234	2,340	2,411	2,533
Regulatory asset ratio (trigger 85%; default 95%)					
RAR	57.1%	56.4%	57.0%	59.5%	59.8%
Shadow RAR	57.5%	56.8%	57.1%	58.7%	58.9%

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 £40m 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 30 June 2018 £m	3 months ended 30 June 2017 £m
Revenue	194.1	189.8
Operating expenditure	(77.9)	(77.0)
EBITDA	116.2	112.8
Profit on disposal of fixed assets	0.7	0.4
Infrastructure renewals expenditure	(21.4)	(21.9)
Depreciation	(71.6)	(67.3)
Operating profit	23.9	24.0
Interest payable	(25.3)	(25.3)
Indexation of index-linked debt	(9.5)	(9.6)
Interest receivable	1.3	1.0
Fair value gains on financial instruments	0.8	17.8
(Loss)/profit before tax	(8.8)	7.9
Taxation	-	-
(Loss)/profit after tax	(8.8)	7.9

Statement of comprehensive income (unaudited)

	3 months ended 30 June 2018 £m	3 months ended 30 June 2017 £m
(Loss)/profit for the period	(8.8)	7.9
Actuarial loss in the pension scheme	-	-
Movement on related deferred tax asset	-	-
Items that will not be reclassified to the profit or loss:		
Revaluation of property, plant and equipment	-	-
Related deferred tax	-	-
Total comprehensive (expense)/income	(8.8)	7.9

Statement of changes in reserves (unaudited)

	3 months ended 30 June 2018 £m	3 months ended 30 June 2017 £m
Reserves at start of period	1,313.5	1,212.3
Revaluation (net of tax)	-	-
(Loss)/profit for the period	(8.8)	7.9
Actuarial loss (net)	-	-
Reserves at end of period	1,304.7	1,220.2

Balance sheet (unaudited)

	At 30 June 2018		At 31 March 2018	
	£m	£m	£m	£m
Fixed assets		5,453.6		5,442.1
Current assets and liabilities:				
Debtors and prepayments	500.9		587.0	
Creditors and accruals	(705.2)		(799.4)	
		(204.3)		(212.4)
Total assets less current liabilities		5,249.3		5,229.7
Financing liabilities:				
Bonds	(2,405.6)		(2,397.7)	
Finance leases	(435.9)		(435.9)	
Bank loans (EIB, KfW)	(501.5)		(509.7)	
Other	(0.6)		(0.6)	
	(3,343.6)		(3,343.9)	
Net interest accrual	(80.8)		(57.3)	
	(3,424.4)		(3,401.2)	
Cash and cash equivalents:				
Receipts account	63.8		76.7	
Payments account	157.7		183.7	
Capex reserve account	-		-	
Debt service payments account	34.2		1.2	
Customer payments account	5.5		7.3	
Other bank accounts	0.2		0.2	
	261.4		269.1	
Net debt		(3,163.0)		(3,132.1)
Derivative financial instruments		(265.6)		(266.3)
Provisions for liabilities and charges		(88.4)		(90.2)
Net assets before deferred tax		1,732.3		1,741.1
Deferred tax		(427.6)		(427.6)
Net assets		1,304.7		1,313.5