



Investor Report

For the quarter ended 31 March 2018

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 31 March 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 is 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:

	Year to 31 March 2018 £m	Year to 31 March 2017 £m	Change
Revenue	757	744	+2%
Operating costs	(318)	(314)	+1%
EBITDA (before IRE)	439	430	+2%
Net interest (excluding indexation)	(117)	(110)	
Capital expenditure (before grants and contributions)	(431)	(366)	

General overview and business update (continued)

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2018 is £9 million higher than last year – excluding the costs of the severe weather incident in March of £6 million, EBITDA has increased by £15 million.

Revenue in the year to 31 March 2018 was £757 million, as compared to £744 million in the year to 31 March 2017. The increase of £12 million relates to increase in consumption, new customers, void properties and the settlement of a longstanding pricing dispute. This increase has been partially offset by the impact of social tariffs as well as recovery of prior year's revenue cap adjusted in current year's bills.

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £318million (2017: £314 million) are higher in comparison with last year; the additional cost of the severe weather incident (£6 million) and cost pressures across most categories have been partially offset by reductions in insurance, rates and IT contracts

Net interest payable in the period (excluding fair value movements) was £177 million (2017: £143 million) including an indexation charge on index-linked debt of £60m (2017: £33m).

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

£m	31 March 2018	31 March 2017
Net debt	3,118	2,916
Regulatory capital value	5,468	5,217
'Financial reserves'	2,350	2,301
Regulatory gearing	57%	56%

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 2018 and 'financial reserves' (RCV less net debt) have risen to over £2.3 billion.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contributions was £431 million (2017: £366 million), in line with the planned acceleration of investment in year three of the five-year capital programme.

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	A
B	A2	A	A

*The credit ratings of the Company's Class A Bonds, which are guaranteed by Assured Guaranty (London) plc (BB/Baa1(pos)/NR), 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 of the Company's bonds is stable.

Financing and liquidity

As at 31 March 2018, undrawn credit facilities and cash amounted to £688 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. All interest bills were paid at 31 March 2018, therefore the balance of the debt service payments account was not material.

On 24 January 2018 the Group raised £300 million of bond finance at a fixed rate of 2.5%. The bond will mature on 31 March 2036.

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 as a breakfast meeting commencing at 8.30am on Wednesday 11 July 2018 at the Andaz Hotel, 40 Liverpool Street, London, EC2M 7QN. If you would like to attend, please contact Mary Jones/Jemma Barker on 01443 452353 or send an email request to investors@dwrcymru.com.

Consolidated cash flow (unaudited)

	3 months ended 31 March 2018	Year ended 31 March 2018	Year ended 31 March 2017
	£m	£m	£m
Revenue	186.3	756.8	743.6
Less: operating expenses	(85.4)	(317.9)	(313.8)
Earnings before interest, taxation, depreciation and amortisation	100.9	438.9	429.8
Working capital movements	22.4	1.6	(11.8)
Non bond-related interest paid	(7.3)	(10.4)	(1.8)
Interest capitalised in accordance with IAS 23	(4.2)	(16.4)	(9.5)
Interest received	0.7	3.8	3.5
Net operating cash flow and interest received	112.5	417.5	410.2
Equity dividends paid	-	-	(30.2)
Income from shares in group undertaking	-	-	2.9
New borrowings			
Class B bonds	300.0	300.0	-
Term loans	-	60.0	70.0
Utilisation of reserves:			
Cash transferred to capex reserve	(39.7)	(141.2)	(80.0)
Cash utilised from capex reserve	39.7	140.6	116.1
Net cash utilised from other reserves	1.0	19.4	5.5
Capital expenditure:			
Net profit on disposal of assets	0.6	1.8	-
Infrastructure renewals expenditure	(17.2)	(87.1)	(64.8)
Non-infrastructure maintenance	(26.1)	(197.2)	(103.2)
Capital expenditure	(69.8)	(136.1)	(157.0)
Net cash flow after capital expenditure, new borrowings and reserve drawings	301.0	377.7	169.5
Transfer to debt service payments account	(52.0)	(143.7)	(115.9)
Principal repayments	(14.1)	(32.1)	(29.8)
Net cash flow after debt service	234.9	201.9	23.8
Free cash balances brought forward	25.7	58.7	34.9
Free cash balances carried forward	260.6	260.6	58.7

Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 31 March 2018 £m	Amount accrued 31 March 2018 £m
Liquidity facility:		
Liquidity facility commitment fee	0.3	0.1
Interest on senior debt:		
Finance lease interest payments	12.3	48.8
A1 interest payments	21.1	-
A4 interest payments	7.4	-
A5 interest payments	2.4	-
A6 interest payments	4.5	-
B1 interest payments	22.4	-
B3 interest payments	4.5	-
B4 interest payments	2.6	-
B5 interest payments	0.5	-
B6 interest payments	3.1	-
B7 interest payments	-	1.4
European Investment Bank loan interest payments	0.2	0.8
KfW IPEX-Bank GmbH loan interest payments	0.2	-
Assured Guaranty wrap fee	4.5	(4.5)
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	0.1	-
	86.2	46.6
Interest rate swaps	27.8	-
RPI bond swaps	(3.5)	-
	24.3	-
Total debt service payments	110.5	46.6

Glas notes principal balance reconciliation (unaudited)

	Credit rating ¹	Opening balance 1 January 2018 £m	New Issues £m	Repayments £m	Indexation £m	Closing balance 31 March 2018 £m
Finance leases		446.5	-	(10.6)	-	435.9
Class A bonds²						
A1 notes	A2/A/A	350.0	-	-	-	350.0
A4 notes		417.5	-	-	3.7	421.2
A5 notes		135.8	-	-	1.2	137.0
A6 notes ³		138.1	-	-	1.9	140.0
Class B bonds						
B1 notes	A2/A/A	325.0	-	-	-	325.0
B3 notes		202.8	-	-	1.6	204.4
B4 notes		119.8	-	-	1.0	120.8
B5 notes		69.3	-	-	0.6	69.9
B6 notes		324.0	-	-	5.4	329.4
B7 notes		-	300.0	-	-	300.0
Term loans		511.5	-	(3.5)	1.7	509.7
Other unsecured loans		0.6	-	-	-	0.6
		3,040.9	300.0	(14.1)	17.1	3,343.9

¹ Moody's/S&P/Fitch.

² Guaranteed by Assured Guaranty (London) plc rated BB/Baa1(pos)/NR. 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 £40.0m has been recognised in this table.

Glas bank account movements (unaudited)

	Opening balance 1 January 2018 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2018 £m
Free cash balances:					
Receipts account	60.6	-	195.2	(179.1)	76.7
Payments account	(35.0)	-	739.6	(520.9)	183.7
Other bank accounts	0.1	0.7	1,503.7	(1,504.3)	0.2
	<u>25.7</u>	<u>0.7</u>	<u>2,438.5</u>	<u>(2,204.3)</u>	<u>260.6</u>
Debt service payments account:					
Debt service ledger	59.7	-	52.0	(110.5)	1.2
Capex reserve account					
	-	-	39.7	(39.7)	-
Customer payments account:					
Customer rebate ledger	1.0	-	7.3	(1.0)	7.3
	<u>86.4</u>	<u>0.7</u>	<u>2,537.5</u>	<u>(2,355.5)</u>	<u>269.1</u>

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	2.1	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)

(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
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	407	462	510	608	742
Total senior gross debt	2,938	3,012	3,401	3,530	3,693
Less: cash balances and authorised investments	(92)	(65)	(283)	(100)	(100)
Total net debt	2,846	2,950	3,118	3,430	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	2,235	2,340	2,411	2,534
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%	58.6%

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 31 March 2018 £m	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Revenue	186.3	756.8	743.6
Operating expenditure	(85.2)	(317.9)	(313.8)
EBITDA	101.1	438.9	429.8
Infrastructure renewals expenditure	(19.3)	(86.0)	(69.7)
Depreciation	(72.4)	(275.8)	(256.6)
Operating profit	9.4	77.1	103.5
Profit on disposal of fixed assets	0.6	1.8	-
Profit before financing activities	10.0	78.9	103.5
Income from shares in group undertakings	-	-	2.9
Interest payable	(51.1)	(120.9)	(113.9)
Indexation of index-linked debt	(17.1)	(60.1)	(32.9)
Interest receivable	0.7	3.9	3.5
Fair value gains/(losses) on financial instruments	31.1	52.3	(27.5)
Loss before tax	(26.4)	(45.9)	(64.4)
Taxation	10.9	6.5	20.9
Loss after tax	(15.5)	(39.4)	(43.5)

Statement of comprehensive income (unaudited)

	3 months ended 31 March 2018 £m	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Loss for the period	(15.5)	(39.4)	(43.5)
Actuarial (loss)/profit in the pension scheme	(1.2)	12.2	(43.3)
Movement on related deferred tax asset	(0.2)	(2.8)	5.9
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	47.1	131.2	141.5
Total comprehensive income	30.2	101.2	60.6

Statement of changes in reserves (unaudited)

	3 months ended 31 March 2018 £m	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Reserves at start of period	1,283.3	1,212.3	1,181.9
Revaluation (net of tax)	47.1	131.2	141.5
Dividends paid	-	-	(30.2)
Loss for the period	(15.5)	(39.4)	(43.5)
Actuarial (loss)/profit (net of tax)	(1.4)	9.4	(37.4)
Reserves at end of period	1,313.5	1,313.5	1,212.3

Balance sheet (unaudited)

	At 31 March 2018		At 31 March 2017	
	£m	£m	£m	£m
Fixed assets		5,442.1		5,184.7
Current assets and liabilities:				
Debtors and prepayments	587.0		569.8	
Creditors and accruals	(799.4)		(763.4)	
		(212.4)		(193.6)
Total assets less current liabilities		5,229.7		4,991.1
Financing liabilities:				
Bonds	(2,397.7)		(2,047.2)	
Finance leases	(435.9)		(446.5)	
Term loans	(509.7)		(461.8)	
Other	(0.6)		(0.6)	
	(3,343.9)		(2,956.1)	
Net interest accrual	(57.3)		(55.7)	
	(3,401.2)		(3,011.8)	
Cash and cash equivalents:				
Receipts account	76.7		71.4	
Payments account	183.7		(12.8)	
Capex reserve account	-		(0.6)	
Debt service payments account	1.2		-	
Customer payments account	7.3		4.0	
Other bank accounts	0.2		0.1	
	269.1		62.1	
Net debt		(3,132.1)		(2,949.7)
Derivative financial instruments		(266.3)		(318.6)
Provisions for liabilities and charges		(90.2)		(107.1)
Net assets before deferred tax		1,741.1		1,615.7
Deferred tax		(427.6)		(403.4)
Net assets		1,313.5		1,212.3

Compliance certificate

To: Deutsche Trustee Company Limited

7 June 2018

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 8 to 9 of the Investor Report issued on today's date.

We also confirm that in the period to 31 March 2018:

- (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

Chris Jones
Director

Peter Bridgewater
Director