

Strong Vote of Confidence in Glas Cymru

£120m lease financing agreement is major boost to water interests in Wales

Welsh Water has completed a £120m lease financing facility for water and sewerage infrastructure assets with a leasing subsidiary of Lombard, a part of the Royal Bank of Scotland Group.

The long-term facility is the first new financing that Welsh Water has closed since the Glas Cymru structured bond financing was put into place to acquire Welsh Water in May 2001.

Chris Jones, Glas Cymru's Finance Director, said:

"The keen competition for this transaction is a vote of confidence in Glas Cymru. It shows that the regulatory and credit strengths of the Glas financing structure have been recognised, understood and considered positively by the lessor investor market.

"The success of this lease is an important part of our plan to finance our £1,200 million capital investment programme over the current five year period, which is delivering major improvements in environmental quality and customer service standards."

Mr Jones added that by funding Welsh Water's assets with long term, low risk bonds, Glas Cymru has cut Welsh Water's annual financing costs by around a quarter - worth some £50 million a year. This allows Glas Cymru to build substantial financial reserves and return part of these annual savings to Welsh Water customers in the shape of lower bills - Glas Cymru has announced a £23 million bill rebate target for customers.

Neil Aiken, managing director, Asset Finance, at Dresdner Kleinwort Wasserstein, which acted as transaction arranger and lessee adviser to Welsh Water, said:

"The bidding process was extremely competitive and the transaction was completed from start to finish in less than 3 months. The financing terms achieved compare very favourably with Welsh Water's existing sources of funds".

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Notes for editors:

1. Glas Cymru was formed in April 2000 for the sole purpose of acquiring Welsh Water. It is a company limited by guarantee, which makes Glas Cymru the same as any other company except for one important difference – it does not have shareholders. This means that all financial surpluses are retained within the business for the benefit of Welsh Water’s customers. It also means that Welsh Water’s only concern is its responsibilities as a water and sewerage company. Under Glas Cymru’s ownership Welsh Water cannot diversify into new and riskier business activities.
2. The water industry everywhere is very capital intensive. The cost of financing Welsh Water’s assets is its single biggest cost and already absorbs nearly a third of its revenues. With continuing high levels of investment to improve water supply and environmental quality – Welsh Water will invest a further £1,175 million over the current five year regulatory period to March 2005 – the cost of financing assets will continue to rise.
3. Glas Cymru has cut the cost of financing Welsh Water’s assets. In May 2001 Glas Cymru completed one of the largest sterling bond issues ever seen in the UK to finance the change in ownership and to fund Welsh Water’s continuing capital investment programme. The bond issue raised £1,910 million and was 70% over-subscribed. By funding Welsh Water’s assets with long term, low risk bonds, Glas Cymru has cut Welsh Water’s annual financing costs by around a quarter. This is a very significant saving and is worth some £50 million a year. In the first instance these savings will be used to build up financial reserves and protect the company and customers from unforeseen circumstances, such as a major drought, and to also improve Welsh Water’s credit quality so that it can reduce its financing costs still further in the years ahead. Once the financial reserves are well established, part of the annual savings can then be used to pay customer bill rebates.
4. At its first Annual General Meeting in July 2001, Glas Cymru announced a £23 million bill rebate target for Welsh Water customers. It has also identified £41 million in efficiency savings that will be spent, on a discretionary basis, on a range of customer service improvements.
5. Welsh Water is the regulated company that provides water and sewerage services to over three million people living and working in Wales as well as some adjoining parts of England. In all, Welsh Water has 1.2 million household customers and over 100,000 business customers.
6. Glas Cymru is a company limited by guarantee and has members instead of shareholders. Members do not receive dividends and do not have any other financial interest in the company. Members carry out the normal corporate governance role of shareholders at Annual General Meetings and, alongside bond investors, industry regulators and the National Assembly, they have a key role in scrutinising Welsh Water’s performance against financial and other targets as well as water industry benchmarks for quality of service and cost efficiency. The Members of Glas Cymru hold an important position in supporting the Company’s primary objective of providing high quality water and sewerage services at least cost to the communities served by Welsh Water.