

Glas Cymru deal named world's top deal of 2001

Glas Cymru and Western Power Distribution have jointly won an award for the world's best finance deal of 2001.

The prestigious International Financial Review has named the Glas Cymru's £1.9 billion acquisition of Welsh Water from Western Power Distribution (WPD) as the most innovative deal of the year. It praises WPD's strategy in buying the Hyder plc group, and Glas Cymru's innovative financing of its acquisition of Welsh Water from WPD.

Glas Cymru and WPD are also said to have had the best financing package, as well as being the top European securitisation and bond issue.

The IFR 2001 Awards said that the transaction, which saw Welsh Water emerge as a not-for-profit company after the break up of its parent Hyder group, established a new business template for the UK's utility sector. It says that the long-term influence of the deal on the banking community is likely to be significant.

It states: "Many of the deals under consideration had innovative features, but the deal that restructured Welsh Water was a ground breaker in all kinds of ways... The deal's structure looks set to provide a financing solution for a range of utilities and for water companies in particular. It is hard to find fault with this deal."

Glas Cymru paid WPD just £1 for Welsh Water, but assumed £1.85 billion in Hyder net debt. A bridging loan was then acquired to buy back Hyder debt. A bond issue to raise capital to refinance the deal was one of the largest and most successful ever seen in the UK.

The Glas concept was devised by Glas Cymru's finance director Chris Jones and director of regulation Nigel Annett, along with Glas Cymru chairman Lord Burns. The bankers were the Royal Bank of Scotland and Schroeder Salomon Smith Barney.

Chris Jones commented: "It was a two year slog to put the deal together. We strongly felt that it was the right way forward for the water industry in Wales. Since then we have made a promising start and in our first half year turned in healthy results, reinvesting surpluses and savings in the business to deliver real benefits to customers. It's good to see a made-in-Wales idea recognised as a world leader in its field."

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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 this year 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 be then be used to pay customer bill rebates. At its first Annual General Meeting in July this year, Glas Cymru announced a £23 million bill rebate target for Welsh Water customers.
4. 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. Welsh Water was a subsidiary of Hyder plc which was acquired by Western Power Distribution following a protracted take-over battle last year. Glas Cymru secured ownership of Welsh Water on 11 May this year.
5. 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.