# Investor Report

## For the quarter ended 31 March 2020

# 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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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.

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## General overview and business update

This quarterly Investor Report covers the three-month period ended 31 March 2020. 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 2020 £m | Year to 31 March 2019 £m | Change (%) |
|---|---|---|---|
| Turnover | 777 | 780 | - |
| Operating costs | (323) | (334) | (3%) |
| Exceptional items | (11) | - | |
| **EBITDA** (before infrastructure renewals expenditure) | **443** | **446** | **(1%)** |
| Net interest (excluding indexation) | (116) | (118) | |
| Capital expenditure (before grants and contributions) | (481) | (471) | |

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2020 is £3 million lower than last year.

Revenue in the year to 31 March 2020 is £3 million lower than last year; an overall reduction is the result of a higher provision against accrued income on metered supplies whilst price adjustments, new customers and meter optants offset one another.

Operating costs (excluding exceptional items, depreciation and infrastructure renewals expenditure) of £323 million are £11 million lower than last year. This reduction is mainly due to lower expenditure on weather-related events; £16m of costs were incurred in 2018/19 as a direct result of the

## General overview and business update (continued)

## Financial performance (unaudited) (continued)

long, dry summer, while at the end of 2019/20 addressing the operational impacts of Storms Ciara and Dennis cost some £4 million. The full financial impact of Storm Dennis, including expenditure incurred in 2020/21, is estimated to be around £18 million (opex and capex), although ongoing insurance claims will reduce the total cost to the business. Other significant movements include the circa £5 million impact of general inflation and a £4 million Covid-19-related increase to the bad debt charge, which have been offset by ongoing efficiency initiatives across the organisation including increased energy generation (£5 million) and the insourcing of activities (£2 million).

Exceptional items totalling £11 million relate to a provision for restructuring costs during the next price control period 2020 to 2025 (“AMP7”) and comprise severance costs associated with headcount reduction and the cost of one-off payments to colleagues affected by changes to working patterns.

Net interest payable in the period (excluding fair value movements) was £165 million (2019: £168 million) including an indexation charge on index-linked debt of £49 million (2019: £50 million).

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

| **£m** | **31 March 2020** | **31 March 2019** |
|---|---|---|
| Net debt | 3,528 | 3,327 |
| Regulatory capital value | 5,906 | 5,671 |
| ‘Financial reserves’ | **2,378** | **2,344** |
| **Regulatory gearing** | 59.7% | 58.7% |

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 is 60% and ‘financial reserves’ (RCV less net debt) are £2.4 billion as at 31 March 2020.

## Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £481 million (2019: £471 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 2025. These projected ratios are derived from Glas Cymru's 2020 financial plan[1] (which has been prepared by the Group) 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 12 and 14). It should be noted that the Group's business plan and the projected ratios have not been reviewed by the company's auditor and the reader's attention is drawn to the important notice at the front of this document.

### Impact of Covid-19 pandemic on projected ratios

The biggest factor currently impacting on our financial forecasts is the coronavirus pandemic. As part of the UK Government's ongoing assessment of the situation, the Office for Budget Responsibility (OBR) published a coronavirus analysis and reference scenario on 14 April 2020, predicting a large but temporary shock to the economy and public finances. Public borrowings and unemployment are expected to rise throughout 2020 with a gradual return to pre-Covid-19 budgeted levels by 2022. The OBR scenario assumes a three-month lockdown and a further three months with partial lifting of restrictions, however the impact will depend upon the actual timing of these measures.

On May 7 2020 the Bank of England (BoE) published its Monetary Policy Report and Interim Financial Stability Report assessing the UK economy and financial system's resilience to the impact of Covid-19. The BoE, like the OBR, recognises the reduction in jobs and income caused by Covid-19 and responds by keeping interest rates low to support households and businesses, and by helping banks to expand lending.

Our own Covid-19 impact modelling has been informed by these reports as well as by a more focused exercise commissioned by Water UK, specific to the water industry in England and Wales, which envisages two key scenarios:

> 1) Shortened peak: following an initial peak in April 2020, successful implementation of non-pharmaceutical interventions (NPIs) including testing, contact tracing, quarantine of cases and social distancing dampen the spread until a vaccine is available in 12 to 18 months' time. Antibody testing may enable a proportion of the population with immunity to return to the workforce. In this scenario, the estimated impact on the economy is a 4% drop in 2020/21 GDP, with unemployment peaking at 7% during 2020/21 and a period of some 18 months for the economy to recover.
>
> 2) Longer peak: weaker adoption of NPIs leads to a more prolonged peak in cases over summer 2020 (May to June). Variability in the success of the implementation of NPIs leads to ongoing but smaller peaks in the disease until the development of a vaccine in 12 to 18 months' time. In this scenario, the estimated impact on the economy is an 8% drop in 2020/21 GDP, with unemployment peaking at 8% during 2020/21 and a period of some two and half years for the economy to recover.

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[1] The financial plan was prepared in February 2020 and does not reflect any estimate of the financial impact of the coronavirus epidemic.

## Prospective financial ratio tests (continued)

### Impact of Covid-19 pandemic on projected ratios (continued)

The biggest risks to revenues are in 2020/21: a decrease in non-household demand during lockdown and subsequent ongoing social distancing restrictions could have an adverse revenue impact of between £9 million (5% of non-household revenues) and £14 million (8%). However, this would be offset by increases in household revenues of £7 million to £10 million and the net impact on revenues would be relatively small. The most difficult risk to quantify is the impact of business failures i.e. those organisations which may not restart after lockdown is lifted. We have assumed a wide range of between 4,000 businesses (10% of closed businesses) and 18,000 (45%). This could result in a revenue loss of between £5 million and £17 million.

We expect to incur cash costs of around £5 million (predominantly PPE) during 2020/21, and have assumed that there will be some ongoing costs in future years of some £3 million per annum.

Our cost base will also be impacted by a higher level of bad and doubtful debts: by examining historical data, we have established a correlation between our bad debt charge and levels of unemployment, albeit there has been a two-year lag between changes in unemployment levels and their impact on the charge. We have prudently assumed that, in light of the scale of the expected increase in unemployment in this recession, increases in unemployment will have an immediate impact on cash collection and the bad debt charge. The OBR estimates that unemployment rate will rise from 3.8% in 2019/20 to 7.3% in 2020/21, fall to 6.0% in 2021/22 and fall further to 4.5% in 2022/23. Our scenarios assume that these forecasts could be 1% lower or 2% higher. We therefore estimate that in the most severe downside scenario the bad debt charge in 2020/21 could be as high as £39 million compared our 2020 plan forecast of £19 million, as high as £34 million in 2021/22 (2020 plan: £18 million) and as high as £28 million in 2022/23 (2020 plan: £17 million).

In either of these scenarios we would experience a significant drop in revenues and an increase in costs, with high levels of unemployment being likely to impact on our collections performance over the next 12 to 24 months; we are nevertheless well-placed to absorb the impact of these financial stresses and will retain our strong liquidity position. It is also important to note that revenue lost in 2020/21 would be recoverable under regulatory mechanisms in 2022/23.

Reduced cash flows would impact on our key financial metrics, in particular interest cover ratios. However, in the most severe downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in our borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, in our opinion they remain within the ranges for our current ratings.

## Credit ratings

The strong credit quality of the business is reflected in credit ratings which remain the highest in the UK water sector. The ratings of the Company's bonds are shown in the table below:

| Bond class | Moody's | S&P | Fitch |
|---|---|---|---|
| **A**[1] | A2 | AA | A |
| **B** | A3 | A- | A |
| **C** | Baa2 | BBB | BBB+ |

On 30 January 2020 Fitch confirmed the rating of the Company's bonds as A and amended the outlook from negative to stable. On 20 December 2019 Moody's announced that they were placing most of the UK water sector companies that they rate "on review for downgrade" following the 16 December 2019 publication of the 2020-2025 Final Determinations by the regulator. This included placing "on review for downgrade" the corporate family rating of Dŵr Cymru Cyfyngedig and the class B senior secured debt – which was subsequently downgraded to A3 with a stable outlook on 7 February 2020. Also on 7 February 2020, S&P downgraded the class B senior secured debt to A- and revised the outlook to stable. The class A bonds (which are subject to a financial guarantee from Assured Guaranty (Europe) plc) are unaffected by this action.

## Financing and liquidity

As at 31 March 2020 the Company's undrawn credit facilities and cash totalled £826 million, including debt service payment funds (£10 million) and revolving credit facilities (£170 million).

On 24 February 2020 Dŵr Cymru (Financing) UK plc, the issuing entity for Welsh Water, successfully raised funding of £500m by the issue of bonds in the debt capital markets. These comprised:

- £300m 1.375 per cent class B bonds due 31st March 2033; and
- £200m 1.625 per cent class C bonds due 31st March 2026.

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

The Group also has an undrawn special liquidity facility of £135 million which is available to be drawn in the event of a standstill being declared by the Security Trustee. The facility is provided on a rolling five-year 'evergreen' basis.

[1] The credit ratings of the Company's class A bonds, which are guaranteed by Assured Guaranty (Europe) plc ("AG") (A2/AA/NR), carry the higher of either Glas or AG's rating; Moody's and S&P therefore revert to the higher AG rating but Fitch reflects the underlying rating of the Glas bonds.

## General overview and business update (continued)

## 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%.

The Company's not-for-shareholder business model means that distributions are made for the benefit of customers. In March 2017 the Company issued a consultation to customers on such distributions during the period to 31 March 2020. This consultation is taken into account when the Board determines distributions (contributions to social tariffs and discretionary capital investments). Further details of the consultation are available on the Company's website (www.dwrcymru.com).

## Consolidated cash flow (unaudited)

| | 3 months ended 31 March 2020 £m | Year ended 31 March 2020 £m | Year ended 31 March 2019 £m |
|---|---|---|---|
| Revenue | 185.7 | 777.3 | 779.8 |
| Less: operating expenses | (93.9) | (334.5) | (333.5) |
| **Earnings before interest, taxation, depreciation and amortisation** | 91.8 | 442.8 | 446.3 |
| Working capital movements | (8.3) | 12.6 | 13.1 |
| Non bond-related interest paid | (0.1) | (4.7) | (7.5) |
| Interest capitalised in accordance with IAS 23 | - | (14.4) | (15.9) |
| Interest received | 1.4 | 5.9 | 4.8 |
| **Net operating cash flow and interest received** | 84.8 | 442.2 | 440.8 |
| **New borrowings:** | | | |
| Finance leases | - | 1.3 | - |
| European Investment Bank | - | - | 250.0 |
| Class B bonds | 300.0 | 300.0 | - |
| Class C bonds | 200.0 | 200.0 | - |
| Intercompany loan | - | 2.8 | - |
| **Utilisation of reserves:** | | | |
| Cash transferred to capex reserve | (128.2) | (419.0) | (706.2) |
| Cash utilised from capex reserve | 128.2 | 549.0 | 576.2 |
| Net cash utilised from other reserves | 3.0 | 12.0 | 7.3 |
| **Capital expenditure:** | | | |
| Net profit on disposal of assets | 0.2 | 0.4 | 0.2 |
| Infrastructure renewals expenditure | (25.9) | (96.1) | (86.8) |
| Non-infrastructure maintenance | (46.7) | (198.2) | (226.5) |
| Capital expenditure | (38.9) | (160.7) | (154.3) |
| **Net cash flow after capital expenditure, new borrowings and reserve drawings** | 476.5 | 633.7 | 100.7 |
| Transfer to debt service payments account | (25.0) | (150.0) | (146.1) |
| Principal repayments | (4.6) | (41.3) | (22.7) |
| **Net cash flow after debt service** | 446.9 | 442.4 | (68.1) |
| Free cash balances brought forward | 188.0 | 192.5 | 260.6 |
| **Free cash balances carried forward** | 634.9 | 634.9 | 192.5 |

## Consolidated debt service payments (unaudited)

| | Payments due and made in 3 months ended 31 March 2020 £m | Amount accrued 31 March 2020 £m |
|---|---|---|
| **Liquidity facility:** | | |
| Liquidity facility commitment fee | - | 0.3 |
| | | |
| **Interest on senior debt:** | | |
| Finance lease interest | 4.7 | 48.2 |
| A1 bond interest | 21.1 | - |
| A4 bond interest | 7.8 | - |
| A5 bond interest | 2.6 | - |
| A6 bond interest | 4.5 | - |
| B1 bond interest | 22.4 | - |
| B3 bond interest | 4.7 | - |
| B4 bond interest | 2.8 | - |
| B5 bond interest | 0.5 | - |
| B6 bond interest | 3.3 | - |
| B7 bond interest | 7.5 | - |
| B8 bond interest | 0.4 | - |
| European Investment Bank loan interest | 0.2 | 1.9 |
| KfW IPEX-Bank GmbH loan interest | 0.2 | - |
| Revolving credit facility commitment fees | 0.1 | - |
| VAT on lease payments | 0.9 | - |
| Miscellaneous fees | 1.4 | - |
| | 85.1 | 50.4 |
| | | |
| Interest rate swaps | 16.5 | - |
| RPI bond swap | (4.5) | (1.9) |
| **Senior interest payments** | 97.1 | 48.5 |
| | | |
| **Interest on junior debt:** | | |
| C3 bond interest | 0.3 | - |
| **Total debt service payments** | 97.4 | 48.5 |

## Dŵr Cymru notes principal balance reconciliation (unaudited)

| | Credit rating[1] | Opening balance 1 January 2020 £m | New Issues £m | Repayment £m | Indexation £m | Closing balance 31 March 2020 £m |
|---|---|---|---|---|---|---|
| Finance leases | | 425.2 | - | (1.1) | - | 424.1 |
| **Class A bonds[2]** | | | | | | |
| A1 notes[3] | A2/AA/A | 350.0 | - | - | 1.1 | 351.1 |
| A4 notes | | 443.8 | - | - | 3.0 | 446.8 |
| A5 notes | | 144.3 | - | - | 1.0 | 145.3 |
| A6 notes[3] | | 146.8 | - | - | 1.7 | 148.5 |
| **Class B bonds** | | | | | | |
| B1 notes | A3/A-/A | 325.0 | - | - | - | 325.0 |
| B3 notes | | 215.3 | - | - | 1.5 | 216.8 |
| B4 notes | | 127.4 | - | - | 0.9 | 128.3 |
| B5 notes | | 73.8 | - | - | 0.4 | 74.2 |
| B6 notes | | 346.1 | - | - | 0.7 | 346.8 |
| B7 notes | | 300.0 | | | - | 300.0 |
| B8 notes[3] | | - | 300.0 | - | 0.9 | 300.9 |
| **Class C bonds** | | | | | | |
| C3 notes[3] | Baa2/BBB/BBB+ | - | 200.0 | - | 0.6 | 200.6 |
| Intercompany loan from Dŵr Cymru Holdings Limited | | 2.8 | - | - | - | 2.8 |
| European Investment Bank/KfW loans | | 724.6 | - | (3.5) | 0.5 | 721.6 |
| Local authority loans | | 0.3 | - | - | - | 0.3 |
| | | 3,625.4 | 500.0 | (4.6) | 12.3 | 4,133.1 |

[1] Moody's/S&P/Fitch.
[2] Guaranteed by Assured Guaranty (Europe) plc rated A2/AA/NR. Class A bond ratings for Fitch therefore default to their higher underlying ratings of A2/AA/A.
[3] The class A1, A6, B8 and C3 notes were issued at a fixed rate and swapped to an effective index-linked rate; cumulative indexation has been recognised in this table.

## Dŵr Cymru bank account movements (unaudited)

| | Opening balance 1 January 2020 £m | Interest received £m | Deposits £m | Payments £m | Closing balance 31 March 2020 £m |
|---|---|---|---|---|---|
| **Free cash balances:** | | | | | |
| Receipts account | 63.4 | - | 187.2 | (187.7) | 62.9 |
| Payments account | 124.4 | - | 1,100.2 | (642.0) | 582.6 |
| Other bank accounts | 0.2 | 1.4 | 855.2 | (867.4) | (10.6) |
| | 188.0 | 1.4 | 2,142.6 | (1,697.1) | 634.9 |
| **Debt service payments account:** | | | | | |
| Debt service ledger | 82.8 | - | 25.0 | (97.4) | 10.4 |
| **Capex reserve account** | - | - | 128.2 | (128.2) | - |
| **Customer payments account:** | | | | | |
| Customer rebate ledger | 3.0 | - | 11.0 | (3.0) | 11.0 |
| | 273.8 | 1.4 | 2,306.8 | (1,925.7) | 656.3 |

## Interest cover ratio (ICR) – 5 years to 31 March 2020 (unaudited)

| (See important notice at the front of the document) | Actual | | | | |
|---|---|---|---|---|---|
| | 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 | 763 | 787 | 786 |
| Operating expenditure | (277) | (313) | (318) | (334) | (334) |
| **Pre capital maintenance cash flows** | **473** | **434** | **445** | **453** | **452** |
| Base maintenance | (208) | (229) | (256) | (264) | (264) |
| **Post capital maintenance cash flows** | **265** | **205** | **189** | **189** | **188** |
| Net interest paid (excluding indexation and capitalisation) | (113) | (120) | (133) | (134) | (130) |
| Enhancement expenditure | (48) | (88) | (101) | (132) | (147) |
| Customer Distributions[1] | (13) | (36) | (64) | (62) | (54) |
| **Pre-financing cash flows** | **91** | **(39)** | **(109)** | **(139)** | **(143)** |
| **Interest payable on senior debt:** | | | | | |
| Fixed interest swap | 10 | 10 | 10 | 9 | 9 |
| Finance lease RPI swaps | 7 | 13 | 25 | 20 | 14 |
| Finance lease interest | 6 | 3 | 3 | 3 | **3** |
| A1 Bonds (index-linked from 24 February 2020) | 21 | 21 | 21 | 21 | 21 |
| B1 Bonds | 22 | 22 | 22 | 22 | 22 |
| B7 Bonds | - | - | 2 | 8 | 8 |
| Other index-linked bonds | 43 | 43 | 42 | 43 | 43 |
| Wrapping fees | 4 | 4 | 4 | 5 | 5 |
| Term-loan interest | 6 | 8 | 8 | 8 | 12 |
| Interest receivable | (6) | (4) | (4) | (5) | (6) |
| **Net interest payable** | **113** | **120** | **133** | **134** | **131** |
| Interest cover pre capital maintenance (trigger 2.0, default 1.6) | 4.2x | 3.6x | 3.3x | 3.4x | 3.5x |
| Interest cover post capital maintenance (trigger 1.0) | 2.3x | 1.7x | 1.4x | 1.4x | 1.4x |

[1] This figure is the total value of revenue foregone in order to fund social tariffs in the year as well as additional discretionary expenditure on behalf of customers, referred to together as "Customer Distributions".

## Interest cover ratio (ICR) – 5 years to 31 March 2025 (unaudited)

| (See important notice at the front of the document) | Projection[1] Year to 31 March 2021 £m | Year to 31 March 2022 £m | Year to 31 March 2023 £m | Year to 31 March 2024 £m | Year to 31 March 2025 £m |
|---|---|---|---|---|---|
| Income | 807 | 828 | 824 | 832 | 839 |
| Operating expenditure | (299) | (307) | (311) | (311) | (317) |
| **Pre capital maintenance cash flows** | **508** | **521** | **513** | **521** | **522** |
| Base maintenance | (209) | (205) | (205) | (164) | (155) |
| **Post capital maintenance cash flows** | **299** | **316** | **308** | **357** | **367** |
| Net interest paid (excluding indexation and capitalisation) | (130) | (106) | (105) | (107) | (108) |
| Enhancement expenditure | (157) | (174) | (187) | (191) | (198) |
| **Pre-financing cash flows** | **12** | **36** | **16** | **59** | **61** |
| **Interest payable on senior debt:** | | | | | |
| Fixed interest swap | 10 | 10 | 10 | 10 | 10 |
| Finance lease RPI swaps | 17 | 16 | 16 | 15 | 14 |
| Finance lease interest | 6 | 7 | 6 | 6 | 4 |
| A1 Bonds (index-linked from 24 February 2020) | 9 | 9 | 9 | 9 | 9 |
| B1 Bonds | 22 | - | - | - | - |
| B7 Bonds | 8 | 8 | 8 | 8 | 8 |
| Other index-linked bonds | 47 | 48 | 49 | 51 | 52 |
| RPI-linked senior bond | (5) | (5) | (5) | (5) | (4) |
| RPI-linked junior bond | (3) | (3) | (3) | (3) | (3) |
| Wrapping fees | 5 | 5 | 5 | 6 | 6 |
| Term-loan interest | 18 | 16 | 15 | 15 | 16 |
| Interest receivable | (4) | (5) | (5) | (5) | (4) |
| **Net interest payable** | **130** | **106** | **105** | **107** | **108** |
| | | | | | |
| Interest cover pre capital maintenance (trigger 2.0, default 1.6) | 3.9x | 4.9x | 4.9x | 4.9x | 4.8x |
| Interest cover post capital maintenance (trigger 1.0) | 2.3x | 3.0x | 2.9x | 3.3x | 3.4x |

[1] The financial plan was prepared in February 2020 and does not reflect any estimate of the financial impact of the coronavirus epidemic.

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

| (See important notice at the front of the document) | Actual<br>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 | 435 | 424 |
| Class A bonds[1] | 1,012 | 1,024 | 1,048 | 1,071 | 1,092 |
| Class B bonds[1] | 1,008 | 1,023 | 1,350 | 1,371 | 1,692 |
| Existing loan facilities | 407 | 462 | 511 | 745 | 722 |
| Net interest accrual on senior debt | 55 | 57 | 57 | 56 | 53 |
| **Total senior gross debt** | **2,938** | **3,012** | **3,402** | **3,678** | **3,983** |
| | | | | | |
| Less: cash and cash equivalents | (92) | (65) | (272) | (351) | (656) |
| **Total senior net debt** | **2,846** | **2,947** | **3,130** | **3,327** | **3,327** |
| | | | | | |
| **Junior gross debt:** | | | | | |
| Class C bonds | - | - | - | - | 201 |
| **Total net debt** | **2,846** | **2,947** | **3,130** | **3,327** | **3,528** |
| | | | | | |
| Regulatory capital value (RCV) | 4,983 | 5,217 | 5,468 | 5,671 | 5,906 |
| | | | | | |
| Customer Reserves (RCV less total net debt) | 2,137 | 2,270 | 2,338 | 2,344 | 2,378 |
| RAR | 57.1% | 56.5% | 57.2% | 58.7% | 59.7% |

[1] For the purpose of calculating regulatory gearing, cumulative indexation relating to the class A1, A6, B8 and C3 notes is included above; these were issued at fixed rates and swapped to effective index-linked rates.

## Regulatory asset ratio (RAR) – 5 years to 31 March 2025 (unaudited)

| (See important notice at the front of the document) | Projections As at 31 March 2021 £m | As at 31 March 2022 £m | As at 31 March 2023 £m | As at 31 March 2024 £m | As at 31 March 2025 £m |
|---|---|---|---|---|---|
| **Senior gross debt:** | | | | | |
| Finance leases | 395 | 379 | 378 | 173 | 94 |
| Class A bonds[1] | 1,121 | 1,154 | 1,188 | 1,223 | 1,259 |
| Class B bonds[1] | 1,091 | 1,114 | 1,137 | 1,162 | 1,187 |
| New senior bond | 309 | 318 | 328 | 343 | 348 |
| Authorised loans | 680 | 637 | 592 | 632 | 665 |
| Net interest accrual on senior debt | 48 | 45 | 39 | 16 | 6 |
| **Total senior gross debt** | 3,644 | 3,647 | 3,662 | 3,549 | 3,559 |
| Less: cash and cash equivalents | ( 298) | ( 263) | ( 226) | ( 100) | ( 100) |
| **Total senior net debt** | 3,346 | 3,384 | 3,436 | 3,449 | 3,459 |
| **Junior gross debt:** | | | | | |
| Class C bonds | 206 | 212 | 219 | 225 | 232 |
| **Total net debt** | **3,552** | **3,596** | **3,655** | **3,674** | **3,691** |
| Regulatory capital value (RCV) | 6,076 | 6,242 | 6,413 | 6,568 | 6,709 |
| Customer Reserves (RCV less total net debt) | 2,524 | 2,646 | 2,758 | 2,894 | 3,018 |
| RAR | 58.5% | 57.6% | 57.0% | 55.9% | 55.0% |
| Senior gearing | 55.1% | 54.2% | 53.6% | 52.5% | 51.6% |

[1] For the purpose of calculating regulatory gearing, cumulative indexation relating to the class A1, A6, B8 and C3 notes is included above; these were issued at fixed rates and swapped to effective index-linked rates.

## Income statement (unaudited)

| | 3 months ended 31 March 2020 £m | Year ended 31 March 2020 £m | Year ended 31 March 2019 £m |
|---|---|---|---|
| Revenue | 185.7 | 777.3 | 779.8 |
| Operating expenditure | (93.9) | (334.5) | (333.5) |
| **EBITDA** | **91.8** | **442.8** | **446.3** |
| Profit on disposal of fixed assets | 0.2 | 0.4 | 0.2 |
| Infrastructure renewals expenditure | (28.4) | (96.5) | (83.9) |
| Depreciation | (81.3) | (315.1) | (291.8) |
| **Operating (loss)/profit** | **(17.7)** | **31.6** | **70.8** |
| Interest payable | (39.9) | (122.3) | (123.2) |
| Indexation of index-linked debt | (12.3) | (49.0) | (50.2) |
| Interest receivable | 1.6 | 6.1 | 4.9 |
| Fair value losses on financial instruments | (4.3) | (18.1) | (17.4) |
| **Loss before tax** | **(72.6)** | **(151.7)** | **(115.1)** |
| Taxation | (10.5) | 2.0 | 17.8 |
| **Loss after tax** | **(83.1)** | **(149.7)** | **(97.3)** |

## Statement of comprehensive income (unaudited)

| | 3 months ended 31 March 2020 £m | Year ended 31 March 2020 £m | Year ended 31 March 2019 £m |
|---|---|---|---|
| Loss for the period | (83.1) | (149.7) | (97.3) |
| Actuarial gain/(loss) on defined benefit scheme liability | 27.1 | (0.9) | (19.9) |
| Movement on related deferred tax asset | (4.5) | 0.2 | 2.6 |
| **Items that will not be reclassified to the profit or loss:** | | | |
| Revaluation of property, plant and equipment (net of tax) | 11.8 | 79.9 | 109.7 |
| **Total comprehensive loss** | **(48.7)** | **(70.5)** | **(4.9)** |

## Statement of changes in reserves (unaudited)

| | 3 months ended 31 March 2020 £m | Year ended 31 March 2020 £m | Year ended 31 March 2019 £m |
|---|---|---|---|
| Reserves at start of period | 1,286.8 | 1,308.6 | 1,313.5 |
| Loss for the period | (83.1) | (149.7) | (97.3) |
| Actuarial gain/(loss) on defined benefit pension scheme liability (net of tax) | 22.6 | (0.7) | (17.3) |
| Revaluation of property, plant and equipment (net of tax) | 11.8 | 79.9 | 109.7 |
| **Reserves at end of period** | **1,238.1** | **1,238.1** | **1,308.6** |

## Balance sheet (unaudited)

| | At 31 March 2020 £m | At 31 March 2020 £m | At 31 March 2019 £m | At 31 March 2019 £m |
|---|---|---|---|---|
| **Fixed assets** | | **5,940.4** | | **5,696.8** |
| **Current assets and liabilities:** | | | | |
| Debtors and prepayments | 592.0 | | 583.3 | |
| Creditors and accruals | (878.7) | | (824.4) | |
| | | (286.7) | | (241.1) |
| **Total assets less current liabilities** | | **5,653.7** | | **5,455.7** |
| **Financing liabilities:** | | | | |
| Bonds | (2,984.3) | | (2,441.4) | |
| Finance leases | (424.1) | | (435.0) | |
| Bank loans (EIB, KfW) | (721.6) | | (744.6) | |
| Other | (3.1) | | (0.4) | |
| | (4,133.1) | | (3,621.4) | |
| Net interest accrual | (53.1) | | (56.3) | |
| | (4,186.2) | | (3,677.7) | |
| **Cash and cash equivalents:** | | | | |
| Receipts account | 62.9 | | 78.6 | |
| Payments account | 582.6 | | 113.7 | |
| Capex reserve account | - | | 130.0 | |
| Debt service payments account | 10.4 | | 13.3 | |
| Customer payments account | 11.0 | | 12.0 | |
| Other bank accounts | (10.6) | | 0.2 | |
| | 656.3 | | 347.8 | |
| **Net debt** | | **(3,529.9)** | | **(3,329.9)** |
| Derivative financial instruments | | (301.8) | | (283.8) |
| Provisions for liabilities and charges | | (102.5) | | (103.7) |
| **Net assets before deferred tax** | | 1,719.5 | | **1,738.3** |
| Deferred tax | | (481.4) | | (429.7) |
| **Net assets** | | **1,238.1** | | **1,308.6** |

# Compliance certificate

To: Deutsche Trustee Company Limited

5 June 2020

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 11 to 14 of the Investor Report issued on today's date.

We also confirm that in the period to 31 March 2020:

(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

P D Perry
Director

P M Davis
Director