Investor Report

For the six months ended 30 September 2021

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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

General overview and business update

This six-monthly Investor Report covers the six-month period ended 30 September 2021. 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.

Financial performance (unaudited)

Summary financial results for the six months to 30 September are as follows:

	6 months to 30 September 2021 £m	6 months to 30 September 2020 £m	Change
Turnover	400	385	+4%
Operating costs	(164)	(153)	+7%
EBITDA (before infrastructure renewals expenditure and exceptional items)	236	232	+2%
Exceptional items	-	(17)	
EBITDA (before infrastructure renewals expenditure)	**236**	**215**	+10%
Net interest (excluding indexation)	(49)	(61)	-20%
Capital expenditure (before grants and contributions)	(164)	(193)	-15%

Operating profit before interest, tax, depreciation, amortisation, infrastructure renewals expenditure and exceptional items (EBITDA) for the year to 30 September 2021 was £4 million higher than last year.

General overview and business update (continued)

Financial performance (unaudited) (continued)

Turnover in the year to 30 September 2021 increased by 4% (£15m) principally reflecting increased overall water usage compared to the prior period (in particular reduced business use during lockdowns) as well as the temporary suspension of standing charges for business customers during the spring 2020 nationwide lockdown (note that Ofwat's revenue cap mechanism allows under-recoveries of revenue to be recovered in future years).

Operating costs (excluding depreciation, amortisation, infrastructure renewals expenditure and exceptional items) of £164 million were £11 million (7%) higher than last year. An increase in costs has been seen across the board, principally caused by the impact of the hot weather and staycation holidays during the summer period on tankering, maintenance costs and increased distribution input. Increased prices for chemicals, bad debt charges, employee pay awards and the inclusion of COVID costs, which we consider to be ongoing costs and therefore not reported as exceptional items, have also contributed to the rise in operating costs, only partially offset by a reduction in property costs and IT service charges.

COVID costs in the prior year, displayed as exceptional, included bad debt charges (£7 million); personal protective equipment (£6 million), deep cleaning (£1 million) and an additional levy from National Grid following a drop in national demand (£2 million).

Net interest payable in the period of £49 million (excluding non-cash indexation and fair value movements on interest rate swaps) was £12 million lower than last year (2020: £61 million). We repaid our relatively expensive £325 million B1 bonds in March 2021 refinanced by £300 million of lower-rate C4 bonds in April 2021, and we have also seen interest rate-related reductions in finance lease and other loan interest charges. These have been partially offset by higher RPI inflation on index-linked debt.

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

£m	September 2021	September 2020
Net debt	3,652	3,607
Regulatory capital value	6,186	5,973
'Financial reserves'	**2,534**	**2,366**
Regulatory gearing	59.0%	60.4%

General overview and business update (continued)

Financial performance (unaudited) (continued)

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 59% and 'financial reserves' (RCV less net debt) are £2.5 billion as at 30 September 2021. A decrease in gearing by 1.4% during the six months to 30 September 2021 is mainly the impact of RPI inflation on the regulatory capital value.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contributions totalled £164 million (2020: £193 million), £29 million lower than last year. We are on track to deliver our £1.8bn AMP7 capital programme.

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 2021 financial plan (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 10 and 11). 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

In this report we have included forecasts (on pages 9 and 10) which incorporate our estimates of the financial impact of COVID-19: as noted above, these have been extracted from Glas Cymru's 2021 financial plan which was approved by the Board in March 2021.

The plan reflects a gradual lifting of restrictions relating to the pandemic with unemployment peaking in the current year and recovering to pre-pandemic levels by 2025. CPIH fell to a low in late 2020, is expected to peak this year, and is then assumed to gradually recover to the government's long-term target of 2% by 2024. This is considered to be a prudent assumption since higher inflation increases the value of the Company's regulatory capital value and lowers its level of regulatory gearing. Some pressure on the Company's bad debt charge is expected during the current year and next, as a consequence of rising unemployment.

Our COVID-19 impact modelling is informed by external reports including those by the Office for Budget Responsibility (OBR) which has published a number of updated coronavirus analyses, the latest being the Economic and Fiscal Outlook released on 27 October 2021. (This latest update from the OBR does not materially impact those forecasts.)

General overview and business update (continued)

Impact of COVID-19 pandemic on projected ratios (continued)

The financial plan has also been subject to an extreme downside stress scenario, which assumes an additional drop in CPIH of 4% (from 1% to -2%, recovering by March 2023), unemployment at around 12% as well as additional COVID-related revenue reductions and cost pressures. Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. However, in this extreme downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in borrowing covenants.

Gearing policy

The Board has approved a regulatory gearing policy (being the ratio of net debt to regulatory capital value) of around 60%.

Customer rebates

Welsh Water's corporate structure enables surpluses to be applied for the benefit of customers. The Board seeks to return value to customers while maintaining gearing at around 60% and preserving strong credit ratings and financial resilience for the longer-term benefit of customers. Since 2001, Glas Cymru has allocated over £440m in total which continues to be invested for the benefit of customers. Given the outcome of the PR19 regulatory price review, combined with the exceptional costs incurred during the pandemic and continued uncertainty, the Company is limited this year in its ability to apply surpluses for the benefit of customers but continues to support the social tariff programme with a contribution of £11m in the year to 31 March 2022.

Credit ratings

The strong credit quality of the business is reflected in credit ratings which remain amongst 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+
Date of confirmation	2 March 2021	5 March 2021	26 January 2021

All rating outlooks are stable.

[1] The credit ratings of the Company's class A bonds, which are guaranteed by Assured Guaranty (UK) Ltd ("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 credit rating but Fitch reflects the underlying rating of the Glas bonds. Assured Guaranty UK Ltd was established in March 2021 when the Group split the operations of Assured Guaranty Europe S.A. The credit ratings of Assured Guaranty (UK) Ltd were unchanged by the reorganisation.

General overview and business update (continued)

Financing and liquidity

As at 30 September 2021, the Company's undrawn credit facilities and cash totalled £711 million, including debt service reserve account funds (£43 million) and revolving credit facilities available to the Company through the Group (£200 million). All of the Group's revolving credit facilities were renewed during the prior year, each for two years with a one-year extension option. Three of the four facilities were increased by £10 million, increasing the total facility size from £170 million to £200 million. As of the date of this report all facilities remain undrawn.

In line with prudent policies approved by the Board, cash is invested in AAA-rated liquidity funds and bonds, National Westminster Bank (as the Group's Account Bank) and additional banks that are 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.

On 31 March 2021 the Group repaid £325 million of Class B (series B1) bonds with a fixed coupon of 6.907% which matured on that date. Following Board approval on 4 March 2021 and investor roadshows held in late March, on 31 March 2021 the Group successfully priced £300 million of subordinated (junior, series C4) bonds at a fixed rate of 2.375%. Formal issuance and cash drawdown took place on 9 April 2021.

In addition, on 6 April 2021 the Group entered into swap contracts, which commenced from 9th April, effectively hedging the new debt issuance to the Retail Prices Index (RPI), with RPI indexation accreting on the balance sheet over the term. The combined effect of these instruments generates a cash interest rate of -1.149% per annum until maturity in 2034 when the RPI-indexed principal (notional £300m x RPI) is repayable in full.

Consolidated cash flow (unaudited)

	6 months ended 30 September 2021 £m	6 months ended 30 September 2020 £m
Revenue	399.6	384.9
Less: operating expenses	(163.8)	(152.8)
Less: exceptional items	-	(16.8)
Earnings before interest, taxation, depreciation, and amortisation	235.8	215.3
Working capital movements	37.3	1.9
Non-bond-related interest paid	(2.6)	(2.4)
Interest capitalised in accordance with IAS 23	(9.8)	(7.5)
Interest received	2.2	2.9
Net operating cash flow and interest received	262.9	210.2
New borrowings:		
Class C bonds	300.0	-
Utilisation of reserves:		
Cash transferred to capex reserve	(179.2)	(212.0)
Cash utilised from capex reserve	179.2	212.0
Net cash utilised from other reserves	7.5	6.5
Capital expenditure:		
Net profit on disposal of assets	0.1	0.1
Infrastructure renewals expenditure	(30.9)	(49.5)
Non-infrastructure maintenance	(57.6)	(80.7)
Capital expenditure	(60.3)	(66.1)
Net cash flow after capital expenditure, new borrowings and reserve drawings	421.7	20.5
Transfer to debt service payments account	(77.0)	(87.5)
Principal repayments	(44.4)	(39.8)
Net cash flow after debt service	300.3	(106.8)
Free cash balances brought forward	160.0	634.9
Free cash balances carried forward	460.3	528.1

Consolidated debt service payments (unaudited)

	Payments due and made in 6 months ended 30 September 2021 £m	Amount accrued 30 September 2021 £m
Liquidity facility:		
Liquidity facility commitment fee	0.6	-
Interest on senior debt:		
Finance lease interest	17.7	-
Lease liability interest	-	49.2
A1 bond interest	-	10.6
A4 bond interest	8.0	-
A5 bond interest	2.6	-
A6 bond interest	-	2.2
B3 bond interest	4.8	-
B4 bond interest	2.8	-
B5 bond interest	0.5	-
B6 bond interest	3.4	-
B7 bond interest	-	3.8
B8 bond interest	-	2.1
European Investment Bank loan interest	10.8	0.9
KfW IPEX-Bank GmbH loan interest	4.3	-
Revolving credit facility commitment fees	0.2	0.1
MBIA wrapping fees	4.7	
VAT on lease payments	0.1	-
Miscellaneous fees	0.4	-
	60.9	68.9
RPI bond swaps	7.8	-
Creditor payments	0.5	-
Senior interest payments	69.2	68.9
Interest on junior debt:		
C3 bond interest	-	1.6
C4 bond interest	-	3.6
RPI bond swaps	(1.7)	-
	(1.7)	5.2
Total debt service payments	67.5	74.1

Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating[1]	Opening balance 1 April 2021 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 30 September 2021 £m
Lease liabilities		411.2	-	(15.1)	-	396.1
Class A bonds[2]						
A1 notes[3]	A2/AA/A	355.3	-	-	10.3	365.6
A4 notes		454.1	-	-	0.6	454.7
A5 notes		147.7	-	-	(2.0)	145.7
A6 notes[3]		150.9	-	-	0.2	151.1
Class B bonds						
B3 notes	A3/A-/A	220.3	-	-	0.3	220.6
B4 notes		130.4	-	-	(1.7)	128.7
B5 notes		75.4	-	-	0.1	75.5
B6 notes		351.6	-	-	12.8	364.4
B7 notes		300.0	-	-	-	300.0
B8 notes[3]		304.5	-	-	8.9	313.4
Class C bonds						
C3 notes[3]	Baa2/BBB/BBB+	203.0	-	-	5.9	208.9
C4 notes[3]		-	300.0	-	8.4	308.4
Intercompany loan from Dŵr Cymru Holdings Limited		2.8	-	-	-	2.8
European Investment Bank/KfW loans		675.0	-	(29.3)	7.9	653.6
Local authority loans		0.2	-	-	-	0.2
		3,782.4	300.0	(44.4)	51.7	4,089.7

[1] Moody's/S&P/Fitch.
[2] Guaranteed by Assured Guaranty UK Ltd 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, C3 and C4 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 April 2021 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2021 £m
Free cash balances:					
Receipts account	73.0	-	451.6	(454.8)	69.8
Payments account	86.9	-	1,606.7	(1,303.9)	389.7
Other bank accounts	0.1	2.2	374.5	(376.0)	0.8
	160.0	2.2	2,432.8	(2,134.7)	460.3
Debt service payments account:					
Debt service ledger	33.8	-	77.0	(67.5)	43.3
Capex reserve account	-	-	179.2	(179.2)	-
Customer payments account:		-	-		
Customer rebate ledger	15.0	-	-	(7.5)	7.5
	208.8	2.2	2,689.0	(2,388.9)	511.1

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

(See important notice at the front of the document)	Actual	Projection			
	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	788	805	843	829	840
Operating expenditure	(359)	(319)	(323)	(310)	(317)
Pre capital maintenance cash flows	**429**	**486**	**520**	**519**	**523**
Base maintenance	(212)	(205)	(205)	(164)	(155)
Post capital maintenance cash flows	**217**	**281**	**315**	**355**	**368**
Net interest paid (excluding indexation and capitalisation)	(108)	(95)	(90)	(92)	(94)
Enhancement expenditure	(122)	(162)	(217)	(188)	(170)
Customer rebates	(31)	(15)	(13)	(10)	(8)
Pre-financing cash flows	**(44)**	**9**	**(5)**	**65**	**96**
Interest payable:					
Fixed interest swap	11	9	9	10	10
Lease liability RPI swaps	8	16	14	14	15
Lease liability interest	5	5	5	5	3
A1 Bonds	8	9	9	9	9
B1 Bonds	22	-	-	-	-
B7 Bonds	8	8	8	8	8
Other index-linked bonds	43	47	46	47	48
RPI-linked senior bond	(3)	(5)	(5)	(5)	(5)
RPI-linked junior bond	(3)	(6)	(6)	(6)	(6)
Wrapping fees	5	5	5	5	6
Term-loan interest	5	10	9	9	9
Other fees	4	1	1	1	1
Interest receivable	(5)	(4)	(5)	(5)	(4)
Net interest payable	**108**	**95**	**90**	**92**	**94**
Senior interest cover pre capital maintenance (trigger 2.0, default 1.6)	3.9x	4.8x	5.4x	5.3x	5.2x
Senior interest cover post capital maintenance (trigger 1.0)	2.0x	2.8x	3.3x	3.6x	3.7x
Total interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.0x	5.1x	5.8x	5.6x	5.6x
Total interest cover post capital maintenance (trigger 1.0)	2.0x	3.0x	3.5x	3.9x	3.9x

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

(See important notice at the front of the document)	Actual		Projection		
	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:					
Lease liabilities	411	379	378	173	95
Class A bonds[1]	1,108	1,134	1,167	1,202	1,234
Class B bonds[1]	1,382	1,411	1,436	1,460	1,512
Authorised loans	675	640	604	538	473
Net interest accrual on senior debt	52	44	39	15	6
Total senior gross debt	**3,628**	**3,608**	**3,624**	**3,388**	**3,320**
Less: cash and cash equivalents	**(209)**	**(454)**	**(399)**	**(149)**	**(100)**
Total senior net debt	**3,419**	**3,154**	**3,225**	**3,239**	**3,220**
Junior net debt:					
Class C bonds[1]	203	508	522	537	554
Total net debt	**3,622**	**3,662**	**3,747**	**3,776**	**3,774**
Regulatory capital value (RCV)	**6,010**	**6,186**	**6,349**	**6,497**	**6,629**
Customer Reserves (RCV less total net debt)	**2,388**	**2,524**	**2,602**	**2,721**	**2,855**
Senior gearing	**56.9%**	**51.0%**	**50.8%**	**49.9%**	**48.6%**
Total gearing/RAR	**60.3%**	**59.2%**	**59.0%**	**58.1%**	**56.9%**

[1] For the purpose of calculating regulatory gearing, cumulative indexation relating to the class A1, A6, B8, C3 and C4 notes is included above; these were issued at fixed rates and swapped to effective index-linked rates. Similar assumptions have been made in respect of forecast bond issuances.

Income statement (unaudited)

	6 months ended 30 September 2021 £m	6 months ended 30 September 2020 £m
Revenue	399.6	384.9
Operating expenditure	(163.8)	(152.8)
Exceptional items	-	(16.8)
EBITDA	**235.8**	**215.3**
Profit on disposal of fixed assets	0.1	0.1
Infrastructure renewals expenditure	(31.8)	(47.1)
Depreciation	(164.4)	(167.3)
Operating profit	**39.7**	**1.0**
Interest payable	(50.7)	(63.8)
Indexation of index-linked debt	(51.7)	(8.8)
Interest receivable	2.1	2.7
Fair value gains/(losses) on financial instruments	3.2	(40.6)
Loss before tax	**(57.4)**	**(109.5)**
Taxation	(52.6)	19.5
Loss after tax	**(110.0)**	**(90.0)**

Statement of comprehensive income (unaudited)

	6 months ended 30 September 2021 £m	6 months ended 30 September 2020 £m
Loss for the period	(110.0)	(90.0)
Actuarial loss on defined benefit scheme liability	(29.9)	(56.6)
Movement on related deferred tax asset	12.7	10.8
Items that will not be reclassified to the profit or loss:		
Revaluation of property, plant and equipment (net of tax)	55.0	32.9
Total comprehensive loss	**(72.2)**	**(102.9)**

Statement of changes in reserves (unaudited)

	6 months ended 30 September 2021 £m	6 months ended 30 September 2020 £m
Reserves at start of period	1,187.0	1,238.1
Loss for the period	(112.5)	(90.0)
Actuarial loss on defined benefit pension scheme liability (net of tax)	(17.2)	(45.8)
Revaluation of property, plant and equipment (net of tax)	55.0	32.9
Reserves at end of period	**1,114.8**	**1,135.2**

Balance sheet (unaudited)

	At 30 September 2021		At 31 March 2021	
	£m	£m	£m	£m
Fixed assets		**6,178.9**		**6,012.4**
Current assets and liabilities:				
Debtors and prepayments	419.0		586.4	
Creditors and accruals	(788.5)		(944.1)	
		(369.5)		(357.7)
Total assets less current liabilities		**5,809.4**		**5,654.7**
Financing liabilities:				
Bonds	(3,037.0)		(2,693.2)	
Lease liabilities	(396.1)		(411.2)	
Bank loans (EIB, KfW)	(653.6)		(675.0)	
Other	(3.0)		(3.0)	
	(4,089.7)		(3,782.4)	
Net interest accrual	(78.2)		(52.4)	
	(4,167.9)		(3,834.8)	
Cash and cash equivalents:				
Receipts account	69.8		73.0	
Payments account	389.7		86.9	
Capex reserve account	-		-	
Debt service payments account	43.3		33.8	
Customer payments account	7.5		15.0	
Other bank accounts	0.8		0.1	
	511.1		208.8	
Net debt		**(3,656.8)**		**(3,626.0)**
Derivative financial instruments		(259.3)		(262.5)
Provisions for liabilities and charges		(136.6)		(106.2)
Net assets before deferred tax		**1,756.7**		**1,660.0**
Deferred tax		(641.9)		(473.0)
Net assets		**1,114.8**		**1,187.0**

To: Deutsche Trustee Company Limited

4 November 2021

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

We also confirm that in the period to 30 September 2021:

(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