Investor Report

For the six months ended 31 March 2022

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.

Contents

General overview and business update

This six-monthly Investor Report covers the six-month period ended 31 March 2022. 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 year ended 31 March 2022 are as follows:

	Year to 31 March 2022 £m	**Year to 31 March 2021 £m**	**Change %**
Turnover	807	776	+4%
Operating costs	(347)	(328)	+6%
Other operating income	6	-	
EBITDA (before infrastructure renewals expenditure and exceptional items)	466	448	+3%
Exceptional items	4	(34)	
EBITDA (before infrastructure renewals expenditure)	**470**	**414**	+14%
Net interest (excluding indexation)	(98)	(97)	
Capital expenditure (before grants and contributions)	(357)	(371)	

Operating profit before interest, tax, depreciation, amortisation, infrastructure renewals expenditure and exceptional items (EBITDA) for the year to 31 March 2022 was £18 million higher than last year.

General overview and business update (continued)

Financial performance (unaudited) (continued)

Turnover in the year to 31 March 2022 increased by 4% (£31million) as a result of non-household consumption returning to normal levels following lockdown measures during 2020-21 and price increases in-line with our PR19 Regulatory settlement.

Operating costs (excluding depreciation, amortisation, infrastructure renewals expenditure and exceptional items) of £347 million were £19 million (6%) higher than last year principally due to energy price increases and higher leakage detection and repair activity to meet our Regulatory Targets.

The exceptional credit in the year of £4million is due to a reduction in bad debt provisions reflecting a lower risk of COVID-19 impacts on cash collections Exceptional items last year of £34 million represent additional cost incurred as a direct result of COVID-19 including increases in bad debt provisions.

Net interest payable in the period of £98 million (excluding non-cash indexation and fair value movements on interest rate swaps) was in line with last year (2021: £97 million). We repaid our relatively expensive 6.9% £325 million B1 bonds in March 2021 from cash reserves, followed by issuing £300 million of lower-rate 2.4% C4 bonds in April 2021. This interest saving partly offset the interest increases as a result of higher RPI inflation on our index-linked debt. Net interest payable including non-cash indexation was £277 million (2021: £134 million) reflecting the sharp increases in inflation experienced over the year.

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

£m	31 March 2022	31 March 2021
Net debt	3,736	3,622
Regulatory capital value	6,460	6,010
‘Financial reserves’	**2,724**	**2,388**
Regulatory gearing	57.8%	60.3%

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 58% and 'financial reserves' (RCV less net debt) are £2.7 billion as at 31 March 2022. A decrease in gearing by 2.5% during the twelve months to 31 March 2022 is mainly the impact of CPIH inflation on the regulatory capital value.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contributions totalled £357 million (2021: £371 million), £14 million lower than last year. We remain on track to deliver our £1.8 billion 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 2022 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 9 and 10). 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.

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 returned over £450 million in total through discretionary capital investments and tariff reductions and continues to invest for the benefit of customers. Given the outcome of the PR19 regulatory price review and continued economic uncertainty, we are not planning further discretionary capital investment in the near term but we continue to support the social tariff programme with a contribution of £12.7 million 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]	A1	AA	A
B	A3	A-	A
C	Baa2	BBB	BBB+
Date of confirmation	5 November 2021	17 May 2022	11 November 2021

All rating outlooks are stable.

Financing and liquidity

As at 31 March 2022, the Company's cash and undrawn credit facilities totalled £701 million, including debt service reserve account funds (£42 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 2020, 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.

Performance reporting

Leakage and per capita consumption reported this year are provisional, as we have initiated a third-party review of our interpretation of Ofwat guidance on reporting methodology for these performance commitments. Once the conclusions of the review are known later this year, we will review our published outcomes for 2020-21 and 2021-22 and our baseline data from 2017-18 used for setting targets. This review may result in the restatement of our AMP7 reported performance and consequently a possible change in previously reported Outcome Delivery Incentives. Pending the conclusion of this review we will not take the benefit of any reward applicable to our performance in 2021-22.

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[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. On 18 March 2022 Moody's upgraded their credit rating assessment of Assured Guaranty UK Ltd to A1.

Consolidated cash flow (unaudited)

	6 months ended 31 March 2022 £m	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Revenue	407.4	807.0	776.2
Less: operating expenses	(182.9)	(346.7)	(327.6)
Add: other operating income	6.0	6.0	-
Add/Less: exceptional items	3.8	3.8	(33.5)
Earnings before interest, taxation, depreciation, and amortisation	234.3	470.1	415.1
Working capital movements	41.7	79.0	27.7
Non-bond-related interest paid	(2.5)	(5.1)	(4.8)
Interest capitalised in accordance with IAS 23	(6.7)	(16.4)	(11.3)
Interest received	1.8	4.0	5.1
Net operating cash flow and interest received	268.7	531.6	431.8
New borrowings:			
Class C bonds	-	300.0	-
Utilisation of reserves:			
Cash transferred to capex reserve	(202.7)	(381.9)	(730.8)
Cash utilised from capex reserve	202.7	381.9	730.8
Net cash utilised from other reserves	7.5	15.0	12.0
Capital expenditure:			
Net profit on disposal of assets	0.5	0.6	0.1
Infrastructure renewals expenditure	(30.2)	(61.1)	(83.0)
Non-infrastructure maintenance	(80.7)	(138.3)	(161.5)
Capital expenditure	(70.2)	(130.5)	(136.5)
Net cash flow after capital expenditure, new borrowings and reserve drawings	95.6	517.3	62.9
Transfer to debt service payments account	(81.5)	(158.5)	(150.0)
Principal repayments	(27.1)	(71.5)	(387.8)
Net cash flow after debt service	(13.0)	287.3	(474.9)
Free cash balances brought forward	460.3	160.0	634.9
Free cash balances carried forward	447.3	447.3	160.0

Consolidated debt service payments (unaudited)

	Payments due and made in 6 months ended 31 March 2022 £m	Amount accrued 31 March 2022 £m
Liquidity facility:		
Liquidity facility commitment fee	-	0.3
Interest on senior debt:		
Finance lease interest	6.8	-
Lease liability interest	-	46.2
A1 bond interest	21.1	-
A4 bond interest	8.3	-
A5 bond interest	2.7	-
A6 bond interest	4.5	-
B3 bond interest	5.0	-
B4 bond interest	3.0	-
B5 bond interest	0.5	-
B6 bond interest	3.5	-
B7 bond interest	7.5	-
B8 bond interest	4.1	-
European Investment Bank loan interest	1.5	1.1
KfW IPEX-Bank GmbH loan interest	0.3	-
Revolving credit facility commitment fees	0.2	-
VAT on lease payments	1.4	-
	70.4	47.6
Interest rate swaps	45.2	-
RPI bond swaps	(25.3)	-
Senior interest payments	90.3	47.6
Interest on junior debt:		
C3 bond interest	3.3	-
C4 bond interest	6.9	-
RPI bond swaps	(17.5)	-
	(7.3)	-
Total debt service payments	83.0	47.6

Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating[1]	Opening balance 1 October 2021 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2022 £m
Lease liabilities		396.1	-	(0.5)	-	395.6
Class A bonds[2]	A1/AA/A					
A1 notes[3]		365.6	-	-	16.5	382.1
A4 notes		454.7	-	-	16.8	471.5
A5 notes		145.7	-	-	7.7	153.4
A6 notes[3]		151.1	-	-	5.6	156.7
Class B bonds	A3/A-/A					
B3 notes		220.6	-	-	8.2	228.8
B4 notes		128.7	-	-	6.7	135.4
B5 notes		75.5	-	-	2.8	78.3
B6 notes		364.4	-	-	14.6	379.0
B7 notes		300.0	-	-	-	300.0
B8 notes[3]		313.4	-	-	14.1	327.5
Class C bonds	Baa2/BBB/BBB+					
C3 notes[3]		208.9	-	-	9.5	218.4
C4 notes[3]		308.4	-	-	14.3	322.7
Intercompany loan from Dŵr Cymru Holdings Limited		2.8	-	-	-	2.8
European Investment Bank/KfW loans		653.6	-	(26.6)	10.1	637.1
Local authority loans		0.2	-	-	-	0.2
	.	4,089.7	-	(27.1)	126.9	4,189.5

[1] Moody's/S&P/Fitch.
[2] Guaranteed by Assured Guaranty UK Ltd rated A1/AA/NR. Class A bond ratings for Fitch therefore default to their underlying ratings of 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.

Dwr Cymru bank account movements (unaudited)

	Opening balance 1 October 2021 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2022 £m
Free cash balances:					
Receipts account	69.8	-	457.6	(441.5)	85.9
Payments account	389.7	-	1,065.1	(1,093.5)	361.3
Other bank accounts	0.8	1.8	454.2	(456.7)	0.1
	460.3	1.8	1,976.9	(1,991.7)	447.3
Debt service payments account:					
Debt service ledger	43.3	-	81.5	(83.0)	41.8
Capex reserve account	-	-	202.7	(202.7)	-
Customer payments account:					
Customer rebate ledger	7.5	-	12.0	(7.5)	12.0
	511.1	1.8	2,273.1	(2,284.9)	501.1

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

(See important notice at the front of the document)	Actual Year to 31 March 2021 £m	Actual Year to 31 March 2022 £m	Actual Year to 31 March 2023 £m	Projection Year to 31 March 2024 £m	Projection Year to 31 March 2025 £m
Income	788	823	836	891	897
Operating expenditure	(359)	(345)	(359)	(363)	(364)
Other operating income	-	6	6	6	6
Pre capital maintenance cash flows	**429**	**484**	**483**	**534**	**539**
Base maintenance	(212)	(190)	(292)	(276)	(260)
Post capital maintenance cash flows	**217**	**294**	**191**	**258**	**279**
Net interest paid (excluding indexation and capitalisation)	(108)	(114)	(124)	(102)	(100)
Enhancement expenditure	(122)	(131)	(165)	(155)	(147)
Customer rebates	(31)	(25)	(12)	(12)	(12)
Pre-financing cash flows	**(44)**	**24**	**(110)**	**(11)**	**20**
Interest payable:					
Fixed interest swap	11	11	9	9	9
Lease liability RPI swaps	8	40	48	22	18
Lease liability interest	5	6	4	4	2
A1 Bonds	8	8	21	21	21
B1 Bonds	22	-	-	-	-
B7 Bonds	8	8	8	8	8
Other index-linked bonds	43	45	50	56	60
RPI-linked senior bond	(3)	(6)	(5)	(6)	(6)
RPI-linked junior bond	(3)	(5)	(18)	(19)	(19)
Wrapping fees	5	5	5	6	6
Term-loan interest	5	4	7	6	5
Other fees	4	2	0	0	0
Interest receivable	(5)	(4)	(6)	(5)	(4)
Net interest payable	**108**	**114**	**124**	**102**	**100**
Senior interest cover pre capital maintenance (trigger 2.0, default 1.6)	3.9x	4.8x	3.7x	4.9x	5.1x
Senior interest cover post capital maintenance (trigger 1.0)	2.0x	2.9x	1.5x	2.4x	2.6x
Total interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.0x	4.2x	3.9x	5.2x	5.4x
Total interest cover post capital maintenance (trigger 1.0)	2.0x	2.6x	1.5x	2.5x	2.8x

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

(See important notice at the front of the document)	Actual As at 31 March 2021 £m	Actual As at 31 March 2022 £m	Actual As at 31 March 2023 £m	Projection As at 31 March 2024 £m	Projection As at 31 March 2025 £m
Senior gross debt:					
Lease liabilities	411	396	378	173	95
Class A bonds[1]	1,108	1,164	1,284	1,344	1,380
Class B bonds[1]	1,382	1,449	1,536	1,640	1,809
Authorised loans	675	637	633	594	531
Net interest accrual on senior debt	52	51	38	14	4
Total senior gross debt	**3,628**	**3,697**	**3,869**	**3,765**	**3,819**
Less: cash and cash equivalents	**(209)**	**(502)**	**(323)**	**(109)**	**(110)**
Total senior net debt	**3,419**	**3,195**	**3,546**	**3,656**	**3,709**
Junior net debt:					
Class C bonds[1]	203	541	618	663	689
Total net debt	**3,622**	**3,736**	**4,164**	**4,319**	**4,398**
Regulatory capital value (RCV)	**6,010**	**6,460**	**6,936**	**7,097**	**7,342**
Customer Reserves (RCV less total net debt)	**2,388**	**2,724**	**2,772**	**2,778**	**2,944**
Senior gearing	**56.9%**	**49.5%**	**51.1%**	**51.5%**	**50.5%**
Total gearing/RAR	**60.3%**	**57.8%**	**60.0%**	**60.9%**	**59.9%**

[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.

Income statement (unaudited)

	6 months ended 31 March 2022 £m	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Revenue	407.4	807.0	776.2
Operating expenditure	(182.9)	(346.7)	(327.6)
Other operating income	6.0	6.0	-
Exceptional items	3.8	3.8	(33.5)
EBITDA	**234.3**	**470.1**	**415.1**
Profit on disposal of fixed assets	0.5	0.6	0.1
Infrastructure renewals expenditure	(30.0)	(61.8)	(74.4)
Depreciation	(163.4)	(327.8)	(333.1)
Operating profit	**41.4**	**81.1**	**7.7**
Interest payable	(51.7)	(102.4)	(102.0)
Indexation of index-linked debt	(126.9)	(178.6)	(37.0)
Interest receivable	2.0	4.1	4.8
Fair value gains on financial instruments	77.2	80.4	39.4
Loss before tax	**(58.0)**	**(115.4)**	**(87.1)**
Taxation	18.3	(34.3)	13.8
Loss after tax	**(39.7)**	**(149.7)**	**(73.3)**

Statement of comprehensive income (unaudited)

	6 months ended 31 March 2022 £m	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Loss for the period	(39.7)	(149.7)	(73.3)
Actuarial gain/(loss) on defined benefit scheme liability	40.4	10.5	(1.3)
Movement on related deferred tax asset	(10.0)	2.7	0.3
Items that will not be reclassified to the profit or loss:			
Revaluation of property, plant and equipment (net of tax)	201.1	256.1	23.2
Total comprehensive loss	**(191.8)**	**(119.6)**	**(51.1)**

Statement of changes in reserves (unaudited)

	6 months ended 31 March 2022 £m	Year ended 31 March 2022 £m	Year ended 31 March 2021
Reserves at start of period	1,114.8	1,187.0	1,238.1
Loss for the period	(39.7)	(149.7)	(73.3)
Actuarial gain/(loss) on defined benefit pension scheme liability (net of tax)	30.4	13.2	(1.0)
Revaluation of property, plant and equipment (net of tax)	201.1	256.1	23.2
Reserves at end of period	**1,306.6**	**1,306.6**	**1,187.0**

Balance sheet (unaudited)

		At 31 March 2022		At 31 March 2021
	£m	£m	£m	£m
Fixed assets		**6,467.3**		**6,012.4**
Current assets and liabilities:				
Debtors and prepayments	609.0		586.4	
Creditors and accruals	(1,061.6)		(944.1)	
		(452.6)		(357.7)
Total assets less current liabilities		**6,014.7**		**5,654.7**
Financing liabilities:				
Bonds	(3,153.8)		(2,693.2)	
Lease liabilities	(395.6)		(411.2)	
Bank loans (EIB, KfW)	(637.1)		(675.0)	
Other	(3.0)		(3.0)	
	(4,189.5)		(3,782.4)	
Net interest accrual	(50.8)		(52.4)	
	(4,240.3)		(3,834.8)	
Cash and cash equivalents:				
Receipts account	85.9		73.0	
Payments account	361.3		86.9	
Capex reserve account	-		-	
Debt service payments account	41.8		33.8	
Customer payments account	12.0		15.0	
Other bank accounts	0.1		0.1	
	501.1		208.8	
Net debt		**(3,739.2)**		**(3,626.0)**
Derivative financial instruments		(182.1)		(262.5)
Provisions for liabilities and charges		(89.8)		(106.2)
Net assets before deferred tax		**2,003.6**		**1,660.0**
Deferred tax		(697.0)		(473.0)
Net assets		**1,306.6**		**1,187.0**

To: Deutsche Trustee Company Limited

1 June 2022

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

We also confirm that in the period to 31 March 2022:

(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