Investor Report

For the quarter ended 30 September 2018

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 quarterly Investor Report covers the three-month period ended 30 September 2018. 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 six months ended 30 September are as follows:

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	Change
Turnover	392	377	+4%
Operating costs	(165)	(153)	+8%
EBITDA (before infrastructure renewals expenditure)	**227**	**224**	**+1%**
Net interest (excluding indexation)	(49)	(47)	
Capital expenditure (before grants and contributions)	(228)	(196)	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the six months to 30 September 2018 is £3 million higher than the comparative period last year.

Revenue in the six months to 30 September 2018 was £392 million, as compared to £377 million in the six months to 30 September 2017. This increase relates to price and consumption increases partially offset by customers switching to a metered supply or social tariff.

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £165 million (2017: £153 million) have increased by £12 million since last year. This is largely attributable to costs associated with the record-breaking long spell of warm, dry weather during the summer to ensure continued supply to customers, in particular the cost of water tankering and pumping around the network, increased sludge treatment expenditure resulting from higher concentration of sewage and greater monitoring of rivers because of elevated pollution risk.

General overview and business update (continued)

Net interest payable in the period (excluding fair value movements) was £68 million (2017: £66 million) including an indexation charge on index-linked debt of £19 million (2017: £19 million).

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

£m	**30 September 2018**	**30 September 2017**
Net debt	3,201	2,964
Regulatory capital value	5,617	5,367
'Financial reserves'	**2,416**	**2,403**
Regulatory gearing	57.0%	55.2%

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 has fallen to 57% as at 30 September 2018 and 'financial reserves' (RCV less net debt) have risen to £2.4 billion.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £228 million (2017: £196 million).

PR19 business plan submission

On 3 September Welsh Water published its PR19 business plan submission, setting out plans for the period 2020-2025. Further details can be found on the Company's website at https://dwrcymru.com/en/Company-Information/PR19.aspx. Ofwat intends to publish an initial assessment of each company's plan on 31 January 2019.

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 2020. These projected ratios are derived from Glas Cymru's 2018 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 8 and 9). It should be noted that the Group's business plan and the projected ratios have not been reviewed by the company's auditors and the reader's attention is drawn to the important notice at the front of this document.

General overview and business update (continued)

Credit ratings

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

Bond Class	Moody's	S&P	Fitch
A*	A2 Neg	A Neg	A
B	A2 Neg	A Neg	A

*The credit ratings of the Company's Class A Bonds, which are guaranteed by Assured Guaranty (London) plc (BB(pos)/Baa1(pos)/NR), revert to their higher underlying ratings of A2 Neg/A Neg/A by Moody's Investor Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch) respectively.

On 26 June 2018, S&P confirmed the rating of the Company's bonds as A, but with negative outlook. On 13 September 2018, Moody's confirmed the rating as A2, but with negative outlook.

Financing and liquidity

As at 30 September 2018, the Company's undrawn credit facilities and cash totalled £640 million. This included undrawn loans (European Investment Bank) and revolving credit facilities amounting to £420 million.

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

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%. In March 2017 the Company issued a consultation to customers on distributions during the period to 31 March 2020. This consultation is taken into account when the Board determines distributions. Further details of the consultation are available on the Company's website, www.dwrcymru.com.

Consolidated cash flow (unaudited)

	3 months ended 30 September 2018 £m	6 months ended 30 September 2018 £m	6 months ended 30 September 2017 £m
Revenue	197.6	391.7	377.3
Less: operating expenses	(86.7)	(164.6)	(152.8)
Earnings before interest, taxation, depreciation and amortisation	110.9	227.1	224.5
Working capital movements	(4.9)	2.3	(11.4)
Non bond-related interest paid	(0.2)	(1.3)	(1.2)
Interest capitalised in accordance with IAS 23	(5.1)	(9.1)	(6.6)
Interest received	1.1	2.4	2.0
Net operating cash flow and interest received	101.8	221.4	207.3
New borrowings			
Authorised loan facility	-	-	60.0
Utilisation of reserves:			
Cash transferred to capex reserve	(218.4)	(306.7)	(66.1)
Cash utilised from capex reserve	218.4	306.7	65.5
Net cash utilised from other reserves	1.8	3.6	17.4
Capital expenditure:			
Net profit on disposal of assets	-	0.7	1.0
Infrastructure renewals expenditure	(25.2)	(49.2)	(43.9)
Non-infrastructure maintenance	(59.4)	(115.3)	(112.2)
Capital expenditure	(29.9)	(64.2)	(43.8)
Net cash flow after capital expenditure, new borrowings and reserve drawings	(10.9)	(3.0)	85.2
Transfer to debt service payments account	(35.0)	(72.0)	(67.8)
Principal repayments	(3.7)	(13.5)	(13.3)
Net cash flow after debt service	(49.6)	(88.5)	4.1
Free cash balances brought forward	221.7	260.6	58.7
Free cash balances carried forward	172.1	172.1	62.8

Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 30 September 2018 £m	Amount accrued 30 September 2018 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Interest on senior debt:		
Finance lease interest	-	50.8
A1 interest	-	10.6
A4 interest	7.5	-
A5 interest	2.4	-
A6 interest	-	0.7
B1 interest	-	11.3
B3 interest	4.5	-
B4 interest	2.6	-
B5 interest	0.5	-
B6 interest	3.1	-
B7 interest	-	5.1
European Investment Bank loan interest	0.2	0.8
KfW IPEX-Bank GmbH loan interest	0.3	-
Revolving credit facility commitment fees	0.1	-
MBIA wrapping fees	-	(2.3)
	21.3	77.1
Interest rate swaps	3.3	-
Total debt service payments	24.6	77.1

Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating[1]	Opening balance 1 July 2018 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 September 2018 £m
Finance leases		435.9	-	-	-	435.9
Class A bonds[2]						
A1 notes	A2/A/A	350.0	-	-	-	350.0
A4 notes		423.6	-	-	2.4	426.0
A5 notes		136.8	-	-	(0.3)	136.5
A6 notes[3]		140.8	-	-	0.8	141.6
Class B bonds						
B1 notes	A2/A/A	325.0	-	-	-	325.0
B3 notes		205.6	-	-	1.1	206.7
B4 notes		120.6	-	-	(0.1)	120.5
B5 notes		70.3	-	-	0.5	70.8
B6 notes		332.9	-	-	3.1	336.0
B7 notes		300.0	-	-	-	300.0
European Investment Bank loans		501.5	-	(3.5)	2.4	500.4
Local authority loans		0.6	-	(0.2)	-	0.4
		3,343.6	-	(3.7)	9.9	3,349.8

[1] Moody's/S&P/Fitch.
[2] Guaranteed by Assured Guaranty (London) plc rated BB(pos)/Baa1(pos)/NR. Class A bond ratings default to their higher underlying ratings of A2(neg)/A(neg)/A.
[3] The class A6 notes (£100m) were issued at a fixed rate of 4.473% and swapped to an effective index-linked rate of 1.35%; cumulative indexation of £41.6m has been recognised in this table.

Dŵr Cymru bank account movements (unaudited)

	Opening balance 1 July 2018 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2018 £m
Free cash balances:					
Receipts account	63.8	-	193.9	(188.1)	69.6
Payments account	157.7	-	655.6	(711.0)	102.3
Other bank accounts	0.2	1.1	441.9	(443.0)	0.2
	221.7	1.1	1,291.4	(1,342.1)	172.1
Debt service payments account:					
Debt service ledger	34.2	-	35.0	(24.6)	44.6
Capex reserve account	-	-	218.4	(218.4)	-
Customer payments account:					
Customer rebate ledger	5.5	-	-	(1.8)	3.7
	261.4	1.1	1,544.8	(1,586.9)	220.4

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	Projection Year to 31 March 2019 £m	Year to 31 March 2020 £m
Income	750	747	764	780	811
Operating expenditure	(277)	(313)	(319)	(312)	(304)
Pre capital maintenance cash flows	**473**	**434**	**445**	**468**	**507**
Capital maintenance expenditure[1]	(208)	(229)	(245)	(279)	(191)
Post capital maintenance cash flows	**265**	**205**	**200**	**189**	**316**
Net interest (excluding indexation and capitalisation)	(113)	(120)	(133)	(145)	(147)
Capital expenditure[1]	(48)	(88)	(112)	(129)	(170)
Increase in 'customer reserves'[2]	(13)[3]	(36)[3]	(81)	(84)	(94)
Pre-financing cash flows	**91**	**(39)**	**(126)**	**(169)**	**(95)**
Interest payable on senior debt:					
Finance leases	6	3	3	4	9
Class A	44	44	45	47	47
Class B	42	42	44	49	50
Assured Guaranty (London) plc financial guarantee fees	4	4	4	5	5
Interest rate and RPI swaps	17	23	33	30	20
Authorised loans	6	8	8	14	20
Less interest receivable	(6)	(4)	(4)	(4)	(4)
Total interest payable	**113**	**120**	**133**	**145**	**147**
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.2	3.6	3.3	3.2	3.4
Interest cover post capital maintenance (trigger 1.0)	2.3	1.7	1.5	1.3	2.1

[1] The projected split between capital and maintenance expenditure assumes a steady level of maintenance activity from 2017 onwards.
[2] Projected values are forecast 'headroom' in the 2017 financial plan to balance gearing to the Glas Board's target of around 60% (see page 9). 'Headroom' represents amounts that may be returned to customers or used to fund additional investment for the benefit of customers.
[3] This figure is the total value of revenue foregone in order to fund social tariffs in the year as well as, in 2017 and 2018, the value of discretionary expenditure for the benefit of customers.

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

(See important notice at the front of the document)

	Actual			Projection	
	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	423	412
Class A	1,012	1,024	1,048	1,071	1,092
Class B	1,008	1,023	1,350	1,376	1,397
Net interest accrual on senior debt	55	57	57	51	50
Term loans	407	462	510	608	742
Total senior gross debt	**2,938**	**3,012**	**3,401**	**3,529**	**3,693**
Less: cash and cash equivalents	(92)	(65)	(283)	(100)	(100)
Total net debt	**2,846**	**2,947**	**3,118**	**3,429**	**3,593**
Regulatory capital value (RCV)	4,983	5,217	5,468	5,766	6,006
Shadow RCV	**4,950**	**5,184**	**5,458**	**5,840**	**6,126**
Customer Reserves (Shadow RCV less total net debt)	**2,104**	**2,237**	**2,340**	**2,411**	**2,533**
Regulatory asset ratio (trigger 85%; default 95%)					
RAR	57.1%	56.4%	57.0%	59.5%	59.8%
Shadow RAR	**57.5%**	**56.8%**	**57.1%**	**58.7%**	**58.7%**

For planning purposes, and for considering the level of headroom available for Customer Distributions, we have used a “Shadow RCV”. This is the RCV reported above as published by Ofwat in FD14 and uplifted by our inflation assumptions, adjusted for other factors we consider are likely to impact on the RCV during the period.

For the purpose of calculating regulatory gearing, cumulative indexation relating to the Class A6 notes (£100m) is included above; these were issued at a fixed rate of 4.473% and swapped to an effective index-linked rate of 1.35%.

Income statement (unaudited)

	3 months ended 30 September 2018 £m	6 months ended 30 September 2018 £m	6 months ended 30 September 2017 £m
Revenue	197.6	391.7	377.3
Operating expenditure	(86.7)	(164.6)	(152.8)
EBITDA	**110.9**	**227.1**	**224.5**
Profit on disposal of fixed assets	-	0.7	1.0
Infrastructure renewals expenditure	(24.0)	(45.4)	(41.1)
Depreciation	(71.8)	(143.4)	(134.9)
Operating profit	**15.1**	**39.0**	**49.5**
Interest payable	(26.0)	(51.3)	(48.6)
Indexation of index-linked debt	(9.8)	(19.3)	(19.0)
Interest receivable	1.1	2.4	2.0
Fair value gains on financial instruments	6.9	7.7	37.6
(Loss)/profit before tax	**(12.7)**	**(21.5)**	**21.5**
Taxation	2.9	2.9	(4.4)
(Loss)/profit after tax	**(9.8)**	**(18.6)**	**17.1**

Statement of comprehensive income (unaudited)

	3 months ended 30 September 2018 £m	6 months ended 30 September 2018 £m	6 months ended 30 September 2017 £m
(Loss)/profit for the period	(9.8)	(18.6)	17.1
Actuarial gain in the pension scheme	14.6	14.6	13.4
Movement on related deferred tax asset	(2.9)	(2.9)	(2.6)
Items that will not be reclassified to the profit or loss:			
Revaluation of property, plant and equipment	119.2	119.2	101.3
Related deferred tax	(20.2)	(20.2)	(17.2)
Total comprehensive income	**100.9**	**92.1**	**112.0**

Statement of changes in reserves (unaudited)

	3 months ended 30 September 2018 £m	6 months ended 30 September 2018 £m	6 months ended 30 September 2017 £m
Reserves at start of period	1,304.7	1,313.5	1,212.3
Revaluation (net of tax)	99.0	99.0	84.1
(Loss)/profit for the period	(9.8)	(18.6)	17.1
Actuarial gain (net of tax)	11.7	11.7	10.8
Reserves at end of period	**1,405.6**	**1,405.6**	**1,324.3**

Balance sheet (unaudited)

	At 30 September 2018		At 31 March 2018	
	£m	£m	£m	£m
Fixed assets		**5,616.5**		**5,442.1**
Current assets and liabilities:				
Debtors and prepayments	414.2		587.0	
Creditors and accruals	(632.6)		(799.4)	
		(218.4)		(212.4)
Total assets less current liabilities		**5,398.1**		**5,229.7**
Financing liabilities:				
Bonds	(2,413.1)		(2,397.7)	
Finance leases	(435.9)		(435.9)	
Bank loans (EIB, KfW)	(500.4)		(509.7)	
Other	(0.4)		(0.6)	
	(3,349.8)		(3,343.9)	
Net interest accrual	(85.1)		(57.3)	
	(3,434.9)		(3,401.2)	
Cash and cash equivalents:				
Receipts account	69.6		76.7	
Payments account	102.3		183.7	
Capex reserve account	-		-	
Debt service payments account	44.6		1.2	
Customer payments account	3.7		7.3	
Other bank accounts	0.2		0.2	
	220.4		269.1	
Net debt		**(3,214.5)**		**(3,132.1)**
Derivative financial instruments		(258.7)		(266.3)
Provisions for liabilities and charges		(72.3)		(90.2)
Net assets before deferred tax		**1,852.6**		**1,741.1**
Deferred tax		(447.0)		(427.6)
Net assets		**1,405.6**		**1,313.5**

Compliance certificate

To: Deutsche Trustee Company Limited

15 November 2018

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

We also confirm that in the period to 30 September 2018:

(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

C A Jones
Director

P J Bridgewater
Director