Investor Report

For the quarter ended 31 March 2019

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 31 March 2019. 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 twelve months ended 31 March are as follows:

	Year to 31 March 2019 £m	Year to 31 March 2018 £m	Change
Turnover	780	757	+3%
Operating costs	(334)	(318)	+5%
EBITDA (before infrastructure renewals expenditure)	**446**	**439**	**+2%**
Net interest (excluding indexation)	(118)	(117)	
Capital expenditure (before grants and contributions)	(471)	(431)	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2019 is £7 million higher than the comparative period last year.

Revenue in the year to 31 March 2019 was £780 million, as compared to £757 million in the year to 31 March 2018. The revenue increase of £23 million reflects principally the impact of price rises (£31 million), partially offset by tariff changes (£9 million) including the impact of social tariff take-up.

Operating costs (excluding depreciation and infrastructure renewals expenditure) of £334 million (2018: £318 million) have increased by £16 million compared to the prior period. Prolonged warm, dry weather over the summer months presented challenging operating conditions and associated cost pressures amounted to £16 million.

General overview and business update (continued)

Net interest payable in the period (excluding fair value movements) was £168 million (2018: £177 million) including an indexation charge on index-linked debt of £50 million (2018: £60 million).

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

£m	**31 March 2019**	**31 March 2018**
Net debt	3,327	3,130
Regulatory capital value	5,671	5,468
'Financial reserves'	**2,344**	**2,338**
Regulatory gearing	58.7%	57.2%

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 59% as at 31 March 2019 and 'financial reserves' (RCV less net debt) have risen to £2.3 billion.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contribution was £471 million (2018: £431 million).

PR19 business plan submission

On 31 January we received Ofwat's initial assessment of our business plan for 2020-2025, which has been classified as "slow track" along with a majority of other companies in the industry. Following this, we have addressed the queries raised and submitted an amended plan to Ofwat in April; we expect to receive draft determinations on our plans in July, ahead of a final determination being published in December.

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 2019 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 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[1]	A2	AA	A neg
B	A2 neg	A neg	A neg

On 26 June 2018, S&P confirmed the rating of the Company's bonds as A; on 13 September 2018, Moody's confirmed the rating as A2 and on 4 June 2019, Fitch confirmed the rating as A, all with negative outlook.

Financing and liquidity

As at 31 March 2019, the Company's undrawn credit facilities and cash totalled £518 million. This includes revolving credit facilities amounting to £170 million.

A European Investment Bank loan facility of £250 million was fully drawn on 17 December 2018.

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.

The Group has a special liquidity facility of £135 million which is available to be drawn in the event of a standstill being declared by the Security Trustee. Until 2 April 2019 this facility was provided by four banks and was renewable on an annual 364-day basis. From 3 April 2019 the facility is provided by an insurance provider (Assured Guaranty) on a rolling five-year 'evergreen' basis.

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).

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[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.

Investor meeting

The Company's annual investor meeting will be held as a breakfast meeting on Wednesday 10 July 2019 at the City Suite, Apex Hotel, 1 Seething Lane, London, EC3N 4AX. Breakfast and registration will be available from 8am with the meeting starting at 8.30 a.m. If you would like to attend, please contact Mary Jones on 01443 452353 or send an email request to investors@dwrcymru.com.

Consolidated cash flow (unaudited)	3 months ended 31 March 2019 £m	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Revenue	193.5	779.8	756.8
Less: operating expenses	(81.0)	(333.5)	(317.9)
Earnings before interest, taxation, depreciation and amortisation	112.5	446.3	438.9
Working capital movements	15.0	13.1	1.6
Non bond-related interest paid	(5.7)	(7.5)	(10.4)
Interest capitalised in accordance with IAS 23	(0.5)	(15.9)	(16.4)
Interest received	1.4	4.8	3.8
Net operating cash flow and interest received	122.7	440.8	417.5
New borrowings			
Class B bonds	-	-	300.0
Authorised loan facility	-	-	60.0
European Investment Bank	-	250.0	-
Utilisation of reserves:			
Cash transferred to capex reserve	(14.6)	(706.2)	(141.2)
Cash utilised from capex reserve	134.6	576.2	140.6
Net cash utilised from other reserves	1.9	7.3	19.4
Capital expenditure:			
Net (loss)/profit on disposal of assets	(0.6)	0.2	1.8
Infrastructure renewals expenditure	(14.4)	(86.8)	(87.1)
Non-infrastructure maintenance	(54.7)	(226.5)	(197.2)
Capital expenditure	(52.6)	(154.3)	(136.1)
Net cash flow after capital expenditure, new borrowings and reserve drawings	122.3	100.7	377.7
Transfer to debt service payments account	(39.1)	(146.1)	(143.7)
Principal repayments	(4.4)	(22.7)	(32.1)
Net cash flow after debt service	78.8	(68.1)	201.9
Free cash balances brought forward	113.7	260.6	58.7
Free cash balances carried forward	192.5	192.5	260.6

Consolidated debt service payments (unaudited)

	Payments due and made in 3 months ended 31 March 2019 £m	Amount accrued 31 March 2019 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Interest on senior debt:		
Finance lease interest	3.8	48.9
A1 bond interest	21.1	-
A4 bond interest	7.6	-
A5 bond interest	2.5	-
A6 bond interest	4.5	-
B1 bond interest	22.4	-
B3 bond interest	4.6	-
B4 bond interest	2.7	-
B5 bond interest	0.5	-
B6 bond interest	3.1	-
B7 bond interest	8.9	-
European Investment Bank loan interest	0.2	1.8
KfW IPEX-Bank GmbH loan interest	0.3	-
VAT on lease payments	0.8	-
	83.1	50.8
Interest rate swaps	24.3	-
RPI bond swap	(3.6)	-
Total debt service payments	103.8	50.8

Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating[1]	Opening balance 1 January 2019 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2019 £m
Finance leases		435.9	-	(0.9)	-	435.0
Class A bonds[2]						
A1 notes	A2/AA/A neg	350.0	-	-	-	350.0
A4 notes		431.4	-	-	3.4	434.8
A5 notes		140.3	-	-	1.1	141.4
A6 notes[3]		143.0	-	-	1.5	144.5
Class B bonds						
B1 notes	A2 neg/A neg/A neg	325.0	-	-	-	325.0
B3 notes		209.2	-	-	1.6	210.8
B4 notes		123.9	-	-	0.9	124.8
B5 notes		71.8	-	-	0.6	72.4
B6 notes		338.0	-	-	(0.3)	337.7
B7 notes		300.0	-	-	-	300.0
European Investment Bank/KfW loans		748.0	-	(3.5)	0.1	744.6
Local authority loans		0.4	-	-	-	0.4
		3,616.9	-	(4.4)	8.9	3,621.4

1 Moody's/S&P/Fitch.

2 Guaranteed by Assured Guaranty Europe plc rated A2/AA/NR. Class A bond ratings default to their higher underlying ratings of A2/AA/A neg.

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 £44.5 has been recognised in this table.

Dŵr Cymru bank account movements (unaudited)

	Opening balance 1 January 2019 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2019 £m
Free cash balances:					
Receipts account	63.7	-	203.8	(188.9)	78.6
Payments account	48.8	-	588.9	(524.0)	113.7
Other bank accounts	1.2	1.4	1,397.6	(1,400.0)	0.2
	113.7	1.4	2,190.3	(2,112.9)	192.5
Debt service payments account:					
Debt service ledger	78.0	-	39.1	(103.8)	13.3
Capex reserve account	250.0	-	14.6	(134.6)	130.0
Customer payments account:					
Customer rebate ledger	1.9	-	12.0	(1.9)	12.0
	443.6	1.4	2,256.0	(2,353.2)	347.8

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	Actual Year to 31 March 2017 £m	Actual Year to 31 March 2018 £m	Actual Year to 31 March 2019 £m	Projection Year to 31 March 2020 £m
Income	750	747	763	787	787
Operating expenditure	(277)	(313)	(318)	(334)	(306)
Pre capital maintenance cash flows	**473**	**434**	**445**	**453**	**481**
Base maintenance	(208)	(229)	(256)	(264)	(235)
Post capital maintenance cash flows	**265**	**205**	**189**	**189**	**246**
Net interest paid (excluding indexation and capitalisation)	(113)	(120)	(133)	(134)	(145)
Enhancement expenditure	(48)	(88)	(101)	(132)	(139)
Customer Distributions[1]	(13)	(36)	(64)	(62)	(85)
Pre-financing cash flows	**91**	**(39)**	**(109)**	**(139)**	**(123)**
Interest payable on senior debt:					
Fixed interest swap	10	10	10	9	7
Finance lease RPI swaps	7	13	25	20	13
Finance lease interest	6	3	3	3	9
A1 Bonds	21	21	21	21	21
B1 Bonds	22	22	22	22	22
B7 Bonds	-	-	2	8	8
Index-linked bonds	43	43	42	43	45
Wrapping fees	4	4	4	5	5
Term-loan interest	6	8	8	8	19
Interest receivable	(6)	(4)	(4)	(5)	(4)
Net interest payable	**113**	**120**	**133**	**134**	**145**
Interest cover pre capital maintenance (trigger 2.0, default 1.6)	4.2	3.6	3.3	3.4	3.3
Interest cover post capital maintenance (trigger 1.0)	2.3	1.7	1.4	1.4	1.7

[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”.

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	435	410
Class A bonds[1]	1,012	1,024	1,048	1,071	1,092
Class B bonds	1,008	1,023	1,350	1,371	1,396
Existing loan facilities	407	462	511	745	723
Net interest accrual on senior debt	55	57	57	56	52
Total senior gross debt	**2,938**	**3,012**	**3,402**	**3,678**	**3,673**
Less: cash and cash equivalents	(92)	(65)	(272)	(351)	(133)
Total net debt	**2,846**	**2,947**	**3,130**	**3,327**	**3,540**
Regulatory capital value (RCV)	4,983	5,217	5,468	5,671	5,968
Customer Reserves (RCV less total net debt)	2,137	2,270	2,338	2,344	2,428
RAR	57.1%	56.5%	57.2%	58.7%	59.3%
Shadow RCV[2]	4,950	5,184	5,485	5,803	6,089
Customer reserves	2,104	2,237	2,386	2,476	2,549
Shadow RAR	57.5%	56.8%	57.1%	57.3%	58.1%

[1] 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%.

[2] 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, uplifted by our inflation assumptions and adjusted for other factors we consider are likely to impact on the RCV during the period.

Income statement (unaudited)

	3 months ended 31 March 2019 £m	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Revenue	193.5	779.8	756.8
Operating expenditure	(81.0)	(333.5)	(317.9)
EBITDA	**112.5**	**446.3**	**438.9**
(Loss)/profit on disposal of fixed assets	(0.6)	0.2	1.8
Infrastructure renewals expenditure	(15.0)	(83.9)	(86.0)
Depreciation	(75.8)	(291.8)	(275.8)
Operating profit	**21.1**	**70.8**	**78.9**
Interest payable	(50.8)	(123.2)	(120.9)
Indexation of index-linked debt	(9.0)	(50.2)	(60.1)
Interest receivable	1.4	4.9	3.9
Fair value gains/(losses) on financial instruments	4.2	(17.4)	52.3
Loss before tax	**(33.1)**	**(115.1)**	**(45.9)**
Taxation	14.9	17.8	6.5
Loss after tax	**(18.2)**	**(97.3)**	**(39.4)**

Statement of comprehensive income (unaudited)

	3 months ended 31 March 2019 £m	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Loss for the period	(18.2)	(97.3)	(39.4)
Actuarial (loss)/profit in the pension scheme	(34.5)	(19.9)	12.2
Movement on related deferred tax asset	5.5	2.6	(2.8)
Items that will not be reclassified to the profit or loss:			
Revaluation of property, plant and equipment (net of tax)	10.7	109.7	131.2
Total comprehensive (loss)/income	**(36.5)**	**(4.9)**	**101.2**

Statement of changes in reserves (unaudited)

	3 months ended 31 March 2019 £m	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Reserves at start of period	1,345.1	1,313.5	1,212.3
Loss for the period	(18.2)	(97.3)	(39.4)
Actuarial (loss)/profit (net of tax)	(29.0)	(17.3)	9.4
Revaluation (net of tax)	10.7	109.7	131.2
Reserves at end of period	**1,308.6**	**1,308.6**	**1,313.5**

Balance sheet (unaudited)

	At 31 March 2019		At 31 March 2018	
	£m	£m	£m	£m
Fixed assets		**5,696.8**		**5,442.1**
Current assets and liabilities:				
Debtors and prepayments	583.3		587.0	
Creditors and accruals	(824.4)		(799.4)	
		(241.1)		(212.4)
Total assets less current liabilities		**5,455.7**		**5,229.7**
Financing liabilities:				
Bonds	(2,441.4)		(2,397.7)	
Finance leases	(435.0)		(435.9)	
Bank loans (EIB, KfW)	(744.6)		(509.7)	
Other	(0.4)		(0.6)	
	(3,621.4)		(3,343.9)	
Net interest accrual	(56.3)		(57.3)	
	(3,677.7)		(3,401.2)	
Cash and cash equivalents:				
Receipts account	78.6		76.7	
Payments account	113.7		183.7	
Capex reserve account	130.0		-	
Debt service payments account	13.3		1.2	
Customer payments account	12.0		7.3	
Other bank accounts	0.2		0.2	
	347.8		269.1	
Net debt		**(3,329.9)**		**(3,132.1)**
Derivative financial instruments		(283.8)		(266.3)
Provisions for liabilities and charges		(103.7)		(90.2)
Net assets before deferred tax		**1,738.3**		**1,741.1**
Deferred tax		(429.7)		(427.6)
Net assets		**1,308.6**		**1,313.5**

Compliance certificate

To: Deutsche Trustee Company Limited 13 June 2019

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 2019:

(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