Investor Report

For the six months ended 30 September 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).

Nothing in this report constitutes an offer of securities for sale in the United States or any other jurisdiction. This announcement does not constitute a prospectus or a prospectus equivalent document.

This report is being made available to you on the basis that you are a person into whose possession this report may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to deliver or otherwise make available this report to any other person. The distribution of this report may be restricted by law and therefore persons into whose possession this report comes should inform themselves about, and observe, such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities or other laws of any such jurisdiction.

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 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 six months to 30 September are as follows:

	6 months to 30 September 2022 £m	6 months to 30 September 2021 £m	Change %
Turnover	427	400	+7%
Operating costs	(187)	(164)	+14%
EBITDA (before infrastructure renewals expenditure and exceptional items)	240	236	+2%
Net interest (excluding indexation)	(49)	(49)	
Capital expenditure (before grants and contributions)	(190)	(164)	

Operating profit before interest, tax, depreciation, amortisation and infrastructure renewals expenditure (EBITDA) for the six months to 30 September 2022 was £4 million higher than last year.

General overview and business update (continued)

Financial performance (unaudited) (continued)

Turnover in the six months to 30 September increased by 7% (£27 million) as a result of price increases in-line with our PR19 Regulatory settlement, increased consumption due to the dry hot summer and an increase in our customer base.

Operating costs (excluding depreciation, amortisation and infrastructure renewals expenditure) of £187 million were £23 million (14%) higher than last year principally due to the increase in the price of energy and chemicals caused by the conflict in Ukraine. Other cost increases result from the impact of dry weather during the summer period on tankering and leakage maintenance costs.

Net interest payable in the period of £49 million (excluding non-cash indexation and fair value movements on interest rate swaps) was in line with last year (2021: £49 million). Net interest payable including non-cash indexation was £221 million (2021: £100 million) reflecting the sharp increase in inflation experienced during the year.

The fair value liability of the company's interest rate swaps has decreased by £148 million to £34 million compared to March 2022 (£182 million). This change is driven by financial market movements. If held to maturity, which is the Company's intention, the fair value of these instruments will be zero.

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

£m	**September 2022**	**September 2021**
Senior net debt	3,320	3,130
Junior debt	584	522
Net debt	3,904	3,652
Regulatory capital value	6,691	6,186
'Financial reserves'	**2,787**	**2,534**
Senior regulatory gearing	49.6%	50.6%
Regulatory gearing	58.3%	59.0%

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 £2.8 billion as at 30 September 2022.

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contributions totalled £190 million (2021: £164 million), £26 million higher than last year. We remain on track to deliver our £1.9 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. The Group's financial plan is updated annually and revised prospective financial ratio tests will be published in the March 2023 Investor Report. On this basis, the prospective financial ratios are better than the "trigger" and "default" levels as defined in the CTA (see page 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%.

Credit ratings

The strong credit quality of the business is reflected in credit ratings which remain amongst the highest in the UK water sector. On 1 November 2022 S&P affirmed the class B senior secured debt at A- and the class C subordinated debt at BBB, and revised the outlook from 'stable' to 'negative' (the class A bonds, which are subject to a financial guarantee from Assured Guaranty UK Ltd, are unaffected by this action). S&P cited the impact of inflation on the Group's inflation-linked debt portfolio and on the high level of capital expenditure as the reasons for the change, and stated that they expect the ratios to gradually recover by the end of AMP7. The full S&P report can be found on the Group's Investors website.

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-/negative	A
C	Baa2	BBB/negative	BBB+
Date of confirmation	5 November 2021	1 November 2022	11 November 2021

[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.

General overview and business update (continued)

The Group's performance on environmental, social and governance (ESG) issues has been reviewed by Sustainable Fitch. Sustainable Fitch has concluded that the Group 'evidences a good ESG profile' with a score of 2 (where 1 = 'excellent', 5 = 'poor'). The full report from Sustainable Fitch can be found on the Group's Investors website.

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 .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 £6 million in the six months to 30 September 2022.

Financing and liquidity

As at 30 September 2022, the Company's cash and undrawn credit facilities totalled £685 million, including debt service reserve account funds (£47 million) and revolving credit facilities available to the Company through the Group (£200 million). All of the Group's revolving credit facilities have been extended into 2023. 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 has adopted a new treasury policy which restricts its investments to those counterparties that demonstrate an acceptable level of ESG risk. 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.

Investor meetings

On 20 July 2022, the Company held its annual investor meeting in London. The Group's Chair, CEO and CFO presented the Group's results for 2021/22 to some 30 attendees. During the 6 months to 30 September 2022, management have met 15 individual investors. The focus of these meetings has been the Group's position on ESG matters and the 'cost of living' crises.

2024 regulatory price review (PR24)

On 7 July 2022, Ofwat published its draft methodology and timetable for PR24, which will set price controls for the 5 years ending 31 March 2030. We expect Ofwat to publish its final methodology in December 2022. The current proposed timetable requires the Company to submit its regulatory business plan to Ofwat in October 2023 and Ofwat to issue its Draft Determination of price limits in Spring 2024 and its Final Determination in December 2024.

General overview and business update (continued)

New Director

On 6 September 2022, Lila Thompson was appointed a non-executive director. Ms Thompson is currently the Chief Executive of British Water which represents UK water and wastewater supply chain companies and has over 20 years of international experience in the infrastructure, healthcare and water industries.

Consolidated cash flow (unaudited)

	6 months ended 30 September 2022 £m	6 months ended 30 September 2021 £m
Revenue	426.7	399.6
Less: operating expenses	(186.9)	(163.8)
Earnings before interest, taxation, depreciation, and amortisation	239.8	235.8
Working capital movements	47.2	37.3
Non-bond-related interest paid	(2.5)	(2.6)
Interest capitalised in accordance with IAS 23	(12.3)	(9.8)
Interest received	4.3	2.2
Net operating cash flow and interest received	276.5	262.9
New borrowings:		
Class C bonds	-	300.0
Utilisation of reserves:		
Cash transferred to capex reserve	(208.6)	(179.2)
Cash utilised from capex reserve	208.6	179.2
Net cash utilised from other reserves	6.0	7.5
Capital expenditure:		
Net profit on disposal of assets	0.2	0.1
Infrastructure renewals expenditure	(38.4)	(30.9)
Non-infrastructure maintenance	(63.8)	(57.6)
Capital expenditure	(67.6)	(60.3)
Net cash flow after capital expenditure, new borrowings and reserve drawings	112.9	421.7
Transfer to debt service payments account	(81.1)	(77.0)
Principal repayments	(47.9)	(44.4)
Net cash flow after debt service	(16.1)	300.3
Free cash balances brought forward	447.3	160.0
Free cash balances carried forward	431.2	460.3

Consolidated debt service payments (unaudited)

	Payments due and made in 6 months ended 30 September 2022 £m	Amount accrued 30 September 2022 £m
Liquidity facility:		
Liquidity facility commitment fee	0.6	-
Interest on senior debt:		
Finance lease interest	16.6	-
Lease liability interest	-	50.6
A1 bond interest	-	10.6
A4 bond interest	8.6	-
A5 bond interest	2.7	-
A6 bond interest	-	2.2
B3 bond interest	5.2	-
B4 bond interest	3.0	-
B5 bond interest	0.6	-
B6 bond interest	3.8	-
B7 bond interest	-	3.8
B8 bond interest	-	2.1
European Investment Bank loan interest	16.6	2.5
KfW IPEX-Bank GmbH loan interest	4.5	0.1
Revolving credit facility commitment fees	0.2	0.1
Assured Guaranty wrapping fee	4.9	(2.5)
VAT on lease payments	3.3	-
	70.6	69.5
RPI bond swaps	6.9	-
Senior interest payments	77.5	69.5
Interest on junior debt:		
C3 bond interest	-	1.6
C4 bond interest	-	3.6
RPI bond swaps	(1.9)	-
	(1.9)	5.2
Total debt service payments	75.6	74.7

Dŵr Cymru notes principal balance reconciliation (unaudited)

	Credit rating[1]	Opening balance 1 April 2022 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 30 September 2022 £m
Lease liabilities		395.6	-	(16.7)	-	378.9
Class A bonds[2]	A1/AA/A					
A1 notes[3]		382.1	-	-	26.8	408.9
A4 notes		471.5	-	-	18.8	490.3
A5 notes		153.4	-	-	(0.4)	153.0
A6 notes[3]		156.7	-	-	6.3	163.0
Class B bonds	A3/A-/A					
B3 notes		228.8	-	-	9.1	237.9
B4 notes		135.4	-	-	(0.3)	135.1
B5 notes		78.3	-	-	3.1	81.4
B6 notes		379.0	-	-	30.3	409.3
B7 notes		300.0			-	300.0
B8 notes[3]		327.5	-	-	23.0	350.5
Class C bonds	Baa2/BBB/BBB+					
C3 notes[3]		218.4	-	-	15.3	233.7
C4 notes[3]		322.7	-	-	22.7	345.4
Intercompany loan from Dŵr Cymru Holdings Limited		2.8	-	-	-	2.8
European Investment Bank/KfW loans		637.1	-	(31.2)	17.3	623.2
Local authority loans		0.2	-	-	-	0.2
	.	4,189.5	-	(47.9)	172.0	4,313.6

[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 April 2022 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2022 £m
Free cash balances:					
Receipts account	85.9	-	459.7	(476.7)	68.9
Payments account	361.3	-	1,200.6	(1,200.2)	361.7
Other bank accounts	0.1	4.3	232.2	(236.0)	0.6
	447.3	4.3	1,892.5	(1,912.9)	431.2
Debt service payments account:					
Debt service ledger	41.8	-	81.1	(75.6)	47.3
Capex reserve account	-	-	208.6	(208.6)	-
Customer payments account:					
Customer rebate ledger	12.0	-	-	(6.0)	6.0
	501.1	4.3	2,182.2	(2,203.1)	484.5

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	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			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	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 30 September 2022 £m	6 months ended 30 September 2021 £m
Revenue	426.7	399.6
Operating expenditure	(186.9)	(163.8)
EBITDA	**239.8**	**235.8**
Profit on disposal of fixed assets	0.2	0.1
Infrastructure renewals expenditure	(37.8)	(31.8)
Depreciation	(168.8)	(164.4)
Operating profit	**33.4**	**39.7**
Interest payable	(53.8)	(50.7)
Indexation of index-linked debt	(172.0)	(51.7)
Interest receivable	5.1	2.1
Fair value gains on financial instruments	147.7	3.2
Loss before tax	**(39.6)**	**(57.4)**
Taxation	2.2	(52.6)
Loss after tax	**(37.4)**	**(110.0)**

Statement of comprehensive income (unaudited)

	6 months ended 30 September 2022 £m	6 months ended 30 September 2021 £m
Loss for the period	(37.4)	(110.0)
Actuarial gain/(loss) on defined benefit scheme liability	130.6	(29.9)
Movement on related deferred tax asset	(32.6)	12.7
Items that will not be reclassified to the profit or loss:		
Revaluation of property, plant and equipment (net of tax)	262.3	55.0
Total comprehensive profit/(loss)	**322.9**	**(72.2)**

Statement of changes in reserves (unaudited)

	6 months ended 30 September 2022 £m	6 months ended 30 September 2021 £m
Reserves at start of period	1,306.6	1,187.0
Loss for the period	(37.4)	(110.0)
Actuarial gain/(loss) on defined benefit pension scheme liability (net of tax)	98.0	(17.2)
Revaluation of property, plant and equipment (net of tax)	262.3	55.0
Reserves at end of period	**1,629.5**	**1,114.8**

Balance sheet (unaudited)

	At 30 September 2022		At 31 March 2022	
	£m	£m	£m	£m
Fixed assets		**6,812.1**		**6,467.3**
Current assets and liabilities:				
Debtors and prepayments	441.2		609.0	
Creditors and accruals	(906.5)		(1,061.6)	
		(465.3)		(452.6)
Total assets less current liabilities		**6,346.8**		**6,014.7**
Financing liabilities:				
Bonds	(3,308.5)		(3,153.8)	
Lease liabilities	(378.9)		(395.6)	
Bank loans (EIB, KfW)	(623.2)		(637.1)	
Other	(3.0)		(3.0)	
	(4,313.6)		(4,189.5)	
Net interest accrual	(80.4)		(50.8)	
	(4,394.0)		(4,240.3)	
Cash and cash equivalents:				
Receipts account	68.9		85.9	
Payments account	361.7		361.3	
Capex reserve account	-		-	
Debt service payments account	47.3		41.8	
Customer payments account	6.0		12.0	
Other bank accounts	0.6		0.1	
	484.5		501.1	
Net debt		**(3,909.5)**		**(3,739.2)**
Derivative financial instruments		(34.4)		(182.1)
Provisions for liabilities and charges		41.4		(89.8)
Net assets before deferred tax		**2,444.3**		**2,003.6**
Deferred tax		(814.8)		(697.0)
Net assets		**1,629.5**		**1,306.6**

To: Deutsche Trustee Company Limited

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

We also confirm that in the period to 30 September 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