Dŵr Cymru Welsh Water

Investor Report

For the six months ended 30 September 2023

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 30 September 2023. The Investor Report has been prepared to comply with the specific requirements of the Common Terms Agreement (CTA) which governs Glas Cymru's obligations to its bondholders and other financial creditors.

The financial information in this report is drawn from the Group's accounting records, applying the accounting policies as per the Group'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 2023 £m	6 months to 30 September 2022 £m	Change
Turnover	463	426	+9%
Operating costs	(191)	(186)	+3%
EBITDA (before infrastructure renewals expenditure)	**272**	**240**	+13%
Net interest (excluding indexation)	(55)	(49)	+12%
Capital expenditure (before grants and contributions)	(210)	(190)	+11%

Operating profit before interest, tax, depreciation, amortisation and infrastructure renewals expenditure (EBITDA) for the six months to 30 September 2023 was £32 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 9% (£37 million) as a result of price increases inline with our PR19 regulatory settlement, increased consumption and growth in our customer base.

Operating costs (excluding depreciation, amortisation and infrastructure renewals expenditure) were £5m higher at £191m (2022: £186 million). Inflation continues to present cost pressures with a rise in chemical and service contractor prices, and net employment costs, offset by the reclassification of leakage expenditure as infrastructure renewals expenditure.

Net interest payable (excluding non-cash indexation and fair value movements on interest rate swaps) in the period increased by 13% (to £55 million), reflecting increases in interest rates and higher levels of debt. Net interest payable including non-cash indexation was £124 million (2022: £127 million) reflecting sustained high inflation in the period impacting non-cash indexation charges.

The fair value liability of the Group's interest rate swaps has decreased by £66 million to £369 million compared to March 2023 (£435 million). This change is driven by financial market movements. If held to maturity, which is the Group'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	**6 months to 30 September 2023 £m**	**6 months to 30 September 2022 £m**
Net debt	4,375	3,904
Regulatory capital value	7,359	6,691
'Financial reserves'	**2,984**	**2,787**
Regulatory gearing	59.4%	58.3%

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 59.4% and 'financial reserves' (RCV less net debt) were £3.0 billion as at 30 September 2023.

General overview and business update (continued)

Capital investment programme

Capital investment (including infrastructure renewals expenditure) before grants and contributions totalled £210 million (2022: £190 million), £20 million higher than last year. We remain on track to deliver our £2 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 2023 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 Group'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. On 14 February 2023 Moody's updated credit analysis confirmed the class B debt at A3 and the class C at Baa2, both with 'stable' outlook. This followed Moody's downgrading its investment outlook towards the UK's water industry from stable to negative in January 2023. On 9 June 2023 Fitch affirmed the class B debt at A and the Class C at BBB+, both with 'stable' outlook.

General overview and business update (continued)

Credit ratings (continued)

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	14 February 2023	1 November 2022	9 June 2023

Environmental, social and governance (ESG)

The Group's performance on environmental, social and governance (ESG) issues was reviewed by Sustainable Fitch in October 2023 and 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 Return of Value

The Group's corporate structure enables surpluses to be applied for the benefit of Welsh Water's 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. During AMP7 our non-shareholder model – the Glas Cymru Advantage – will enable us to invest additional funds of £160 million for the benefit of our customers through accelerated investment to help improve service delivery and social tariffs to support our most vulnerable customers. This includes an additional discretionary capital investment of £100m to address river water quality, in particular phosphate removal at Special Area of Conservation (SAC) rivers.

2024 regulatory price review (PR24)

On 2 October 2023, the Company submitted its PR24 business plan to Ofwat. The current timetable is for Ofwat to issue its Draft Determination of price limits in Spring 2024 and its Final Determination in December 2024.

[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)

Financing and liquidity

As at 30 September 2023, the Group's cash and undrawn credit facilities totalled £508 million, including revolving credit facilities available to the Group (£200 million). The Group has extended all of it's RCF's to November 2024. 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

The Group held its annual investor meeting in London in July. The Group's Chair, CEO and CFO presented the Group's results and strategy for 2022/23 to attendees representing 15 different lenders and bondholders. During the 6 months to 30 September 2023, management have engaged with 18 individual investors. The focus of these meetings has been the Group's position on ESG matters and the impact of inflation.

Consolidated cash flow (unaudited)	6 months ended 30 September 2023 £m	6 months ended 30 September 2022 £m
Revenue	462.6	426.2
Operating expenses	(190.5)	(186.3)
Earnings before interest, taxation, depreciation, and amortisation	**272.1**	**239.9**
Working capital movements	(71.7)	47.9
Non-bond-related interest paid	(2.6)	(2.5)
Interest capitalised in accordance with IAS 23	(11.9)	(12.3)
Interest received	10.1	4.3
Net operating cash flow and interest received	**196.0**	**277.3**
Utilisation of reserves:		
Cash transferred to capex reserve	(250.6)	(208.6)
Cash utilised from capex reserve	250.6	208.6
Net cash utilised from other reserves	20.2	6.0
Capital expenditure:		
Net profit on disposal of assets	0.3	0.2
Infrastructure renewals expenditure	(51.1)	(38.4)
Non-infrastructure maintenance	(76.4)	(63.8)
Enhancement expenditure	(79.3)	(67.6)
Net cash flow after capital expenditure, new borrowings and reserve drawings	**9.7**	**113.7**
Transfer to debt service payments account	(64.9)	(81.1)
Principal repayments	(34.9)	(47.9)
Net cash flow after debt service	**(90.1)**	**(15.3)**
Free cash balances brought forward	361.9	447.3
Free cash balances carried forward	**271.8**	**432.0**

Consolidated debt service payments (unaudited)	Payments due and made in 6 months ended 30 September 2023 £m	Amount accrued 30 September 2023 £m
Liquidity facility:		
Liquidity facility commitment fee	0.3	-
Interest on senior debt:		
Lease liability interest	-	56.9
A1 interest payments	-	10.6
A4 interest payments	9.8	-
A5 interest payments	2.8	-
A6 interest payments	-	2.2
B3 interest payments	5.9	-
B4 interest payments	3.1	-
B5 interest payments	0.6	-
B6 interest payments	4.2	-
B7 interest payments	-	3.8
B8 interest payments	-	2.1
European Investment Bank loan interest payments	8.1	5.9
KfW IPEX-Bank GmbH loan interest payments	1.0	0.1
Assured Guaranty wrapping fee	-	(2.6)
Revolving credit facility commitment fees	0.3	-
	36.1	**79.0**
Interest rate swaps	0.8	(0.4)
RPI bond swaps	3.6	-
Senior interest payments	**40.5**	**78.6**
Interest on junior debt:		
C3 interest payments	-	1.6
C4 interest payments	-	3.6
RPI bond swaps	(2.1)	-
	(2.1)	**5.2**
Total debt service payments	**38.4**	**83.8**

Glas Cymru principal balance reconciliation (unaudited)

	Credit rating[1]	Opening balance 1 April 2023	New issues	Repayment	Indexation	Closing balance 30 September 2023
		£m	£m	£m	£m	£m
Finance leases[2]		378.1	-	-	-	378.1
Class A bonds[3]						
A1 notes	A3/A/A	433.5	-	-	19.2	452.7
A4 notes		529.7	-	-	26.4	556.1
A5 notes		161.1	-	-	(0.4)	160.7
A6 notes[4]		175.9	-	-	8.8	184.7
Class B bonds						
B1 notes	A3/A/A	-	-	-	-	-
B3 notes		257.0	-	-	12.8	269.8
B4 notes		142.2	-	-	(0.3)	141.9
B5 notes		88.0	-	-	4.4	92.4
B6 notes		429.8	-	-	16.6	446.4
B7 notes		300.0			-	300.0
B8 notes		371.5	-	-	16.5	388.0
Class C bonds						
C3 notes		247.7	-	-	11.0	258.7
C4 notes		366.1	-	-	16.2	382.3
European Investment Bank/KfW loans		609.0	-	(34.9)	9.7	583.8
Local authority loans		0.2	-	-	-	0.2
		4,489.8	**-**	**(34.9)**	**140.9**	**4,595.8**

[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

Glas Cymru bank account movements (unaudited)

	Opening balance 1 April 2023 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2023 £m
Free cash balances:					
Receipts account	91.3	-	451.0	(467.7)	74.6
Payments account	268.9	-	1,365.8	(1,439.8)	194.9
Other bank accounts	1.7	10.1	868.3	(877.8)	2.3
	361.9	10.1	2,685.1	(2,785.3)	271.8
Debt service payments account:					
Debt service ledger	1.6	-	64.9	(38.4)	28.1
Insurance proceeds ledger	-	-	-	-	-
	1.6	-	64.9	(38.4)	28.1
Capex reserve account	-	-	250.6	(250.6)	-
Customer payments account	-	-	27.8	(20.2)	7.6
	363.5	**10.1**	**3,028.4**	**(3,094.5)**	**307.5**

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	853	915	907
Operating expenditure	(359)	(345)	(427)	(400)	(388)
Other operating income	-	6	5	5	5
Pre capital maintenance cash flows	**429**	**484**	**431**	**520**	**524**
Base maintenance	(212)	(190)	(218)	(241)	(264)
Post capital maintenance cash flows	**217**	**294**	**213**	**279**	**260**
Net interest paid (excluding indexation and capitalisation)	(108)	(114)	(136)	(114)	(118)
Enhancement expenditure	(122)	(131)	(172)	(195)	(185)
Customer rebates	(31)	(25)	(23)	(14)	(14)
Pre-financing cash flows	**(44)**	**24**	**(118)**	**(44)**	**(57)**
Interest payable:					
Fixed interest swap	11	11	6	2	2
Lease liability RPI swaps	8	40	57	17	10
Lease liability interest	5	6	16	23	23
A1 Bonds	8	8	9	21	21
B1 Bonds	22	-	-	-	-
B7 Bonds	8	8	8	8	8
Other index-linked bonds	43	45	49	55	61
RPI-linked senior bond	(3)	(6)	(4)	(6)	(6)
RPI-linked junior bond	(3)	(5)	(9)	(19)	(19)
Wrapping fees	5	5	5	6	6
Term-loan interest	5	4	12	18	15
Other fees	4	2	2	-	-
Interest receivable	(5)	(4)	(15)	(12)	(3)
Net interest payable	**108**	**114**	**136**	**114**	**118**
Senior interest cover pre capital maintenance (trigger 2.0, default 1.6)	3.9x	4.8x	3.5x	4.3x	4.2x
Senior interest cover post capital maintenance (trigger 1.0)	2.0x	2.9x	1.7x	2.3x	2.1x
Total interest cover pre capital maintenance	4.0x	4.2x	3.1x	4.6x	4.4x
Total interest cover post capital maintenance (trigger 1.0)	2.0x	2.6x	1.5x	2.4x	2.2x

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	374	115
Class A bonds[1]	1,108	1,164	1,300	1,387	1,439
Class B bonds[1]	1,382	1,449	1,589	1,678	1,730
Authorised loans	675	637	609	544	780
Net interest accrual on senior debt	52	51	51	56	24
Total senior gross debt	**3,628**	**3,697**	**3,927**	**4,039**	**4,088**
Less: cash and cash equivalents	**(209)**	**(502)**	**(364)**	**(217)**	**(100)**
Total senior net debt	**3,419**	**3,195**	**3,563**	**3,822**	**3,988**
Junior net debt:					
Class C bonds[1]	203	541	614	650	676
Total net debt[2]	**3,622**	**3,736**	**4,177**	**4,472**	**4,664**
Regulatory capital value (RCV)	**6,010**	**6,460**	**7,161**	**7,295**	**7,637**
Customer Reserves (RCV less total net debt)	**2,388**	**2,724**	**2,984**	**2,823**	**2,973**
Senior gearing	**56.9%**	**49.5%**	**49.8%**	**52.4%**	**52.2%**
Total gearing/RAR	**60.3%**	**57.8%**	**58.3%**	**61.3%**	**61.1%**

[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.

[2] Total debt reported, excluding cash and cash equivalent, differs to page 9 "Glas Cymru notes principal balance reconciliation (unaudited)" as it includes £51m net interest accrual on senior debt.

Income statement (unaudited)

	6 months ended 30 September 2023 £m	6 months ended 30 September 2022 £m
Turnover	462.6	426.2
Operating expenditure	(190.5)	(186.3)
EBITDA	**272.1**	**239.9**
Infrastructure renewals expenditure	(48.8)	(37.8)
Depreciation	(186.5)	(168.9)
Profit on disposal of fixed assets	0.3	0.2
Operating profit	**37.1**	**33.4**
Interest payable	(65.3)	(53.7)
Indexation of index-linked debt	(69.2)	(77.9)
Interest receivable	10.4	5.0
Fair value gains on financial instruments	65.7	286.2
(Loss)/profit before tax	**(21.3)**	**193.0**
Taxation	4.0	(55.5)
(Loss)/profit after tax	**(17.3)**	**137.5**

Statement of comprehensive income (unaudited)

	6 months ended 30 September 2023 £m	6 months ended 30 September 2022 £m
(Loss)/profit for the period	(17.3)	137.5
Actuarial gain in the pension scheme	43.4	130.6
Movement on related deferred tax asset	(16.7)	(32.6)
Amount reclassified to revaluation reserve	126.5	262.3
Total recognised gains for the period	**135.9**	**497.8**

Statement of changes in reserves (unaudited)

	6 months ended 30 September 2023 £m	6 months ended 30 September 2022 £m
Reserves at start of period	1,500.2	1,085.9
Revaluation net of tax	126.5	262.3
(Loss)/profit for the period	(17.3)	137.5
Actuarial gain	26.7	98.0
Reserves at end of period	**1,636.1**	**1,583.7**

Balance sheet (unaudited)

	At 30 September 2023		At 31 March 2023	
	£m	£m	£m	£m
Fixed assets		**7,365.1**		**7,161.4**
Current assets and liabilities:				
Debtors and prepayments	482.6		668.1	
Creditors and accruals	(1,051.7)		(1,225.9)	
		(569.1)		(557.8)
Total assets less current liabilities		**6,796.0**		**6,603.6**
Financing liabilities:				
Bonds	(3,217.3)		(3,157.8)	
Lease liabilities	(378.0)		(378.1)	
Bank loans (EIB, KfW)	(583.8)		(609.0)	
Other	(0.2)		(0.2)	
	(4,179.3)		(4,145.1)	
Net interest accrual	(88.7)		(52.7)	
	(4,268.0)		(4,197.8)	
Cash and cash equivalents:				
Receipts account	74.6		91.3	
Payments account	194.9		268.9	
Debt service payments account	28.1		1.6	
Customer payments account	7.6		-	
Other bank accounts	2.3		1.7	
	307.5		363.5	
Net debt		**(3,960.5)**		**(3,834.3)**
Derivative financial instruments		(368.9)		(434.6)
Provisions for liabilities and charges		47.7		(11.2)
Net assets before deferred tax		**2,514.3**		**2,323.5**
Deferred tax		(878.2)		(823.3)
Net assets		**1,636.1**		**1,500.2**

To: Deutsche Trustee Company Limited

10 November 2023

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 2023:

(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