

By email

██████████
Legal and Compliance Director, Company Secretary
Dŵr Cymru Cyfyngedig (Welsh Water)
Pentwyn Road
Nelson, Treharris
Mid Glamorgan
CF46 6LY

28 March 2022

Dear ██████████,

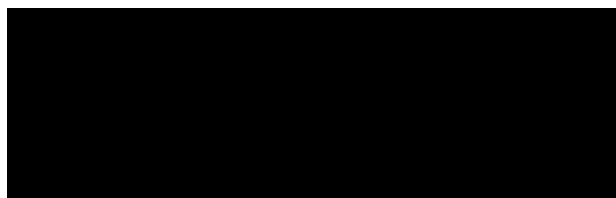
Dŵr Cymru Cyfyngedig's updated dividend policy

1. Dŵr Cymru Cyfyngedig (“**Dŵr Cymru**”) is the holder of an instrument of appointment granted under sections 11 and 14 of the Water Act 1989 (the “**Appointment**”). Words and expressions defined in the Appointment shall have the same meaning in this letter unless the context otherwise requires.
2. Condition P29 of Dŵr Cymru's Appointment (previously, Condition F6.12) states that "The Appointee shall declare or pay dividends only in accordance with a dividend policy which, in the written opinion of Ofwat, will not impair the ability of the Appointee to finance the Appointed Business."
3. Dŵr Cymru has reviewed and updated its dividend policy and has provided Ofwat with a copy, as formally adopted by the Board on 3 February 2022, shown in the appendix to this letter.
4. The policy reflects commitments made by the company to meet the expectations we set for a reasonable dividend policy at PR19 (as set out in section 9.1.4 (pp117-120) of the [PR19 Final Determination \(Risk & Return technical appendix\)](#)). Our expectations referenced 4% as a reasonable base dividend yield for a company with little real RCV growth and that performs in line with our determination. Our expectations also referenced the need for companies to clearly explain how dividends paid relate to factors that include meeting statutory and licence obligations, commitments made to customers, delivery against the determination, financial resilience and other responsibilities, including to employee interests.
5. We have reviewed the policy pursuant to Condition P29 noted above. We note that Dŵr Cymru proposes a dividend yield below the level referenced by us as a reasonable base dividend yield at PR19, and the references to the circumstances under which dividends may be restricted align with the expectations set out at PR19.

██████████, Senior Director m. ██████████ e. ██████████

6. The policy also confirms the factors that will be taken into account when making decisions on dividend payments. The policy confirms that, in recording its decision to pay any dividends, the Dŵr Cymru Board will include detail as to how it has taken into account factors such as obligations and promises to customers, delivery of service to customers, financial resilience and employee interests; how the Appointed Business has delivered against performance levels as set out in the final determination and elsewhere; and how performance delivery has impacted on dividends paid. The policy additionally confirms that Dŵr Cymru's Annual Performance Report will include an explanation of how these points have been taken into account in considering any dividend payments, including details of any change in dividend policy.
7. We note that the policy provides a summary of the factors that would be taken into account when making decisions on dividend payments. We note that Dŵr Cymru provided more granular detail on this issue at PR19. The company has confirmed that the Board will apply all of the factors detailed to us during PR19 in the context of any future decision to pay dividends.
8. Based on the information provided, and assuming application of the policy is in accordance with the stated intent, we confirm that the dividend policy is consistent with the requirements stated in Condition P29.

Yours sincerely,



Senior Director, Strategy, Finance and Infrastructure

Appendix

Glas Cymru Group Dividend Policy

Formally adopted by the joint Boards of Glas Cymru Holdings Cyfyngedig (Glas Cymru) and Dŵr Cymru Cyfyngedig (Dwr Cymru) (the Board) on 3 February 2022



1. Statement on Dividend Policy

Glas Cymru is the ultimate parent company of Dŵr Cymru (the Appointee). As a company limited by guarantee, and having no shareholders, all financial surpluses are reinvested for the benefit of our customers. Accordingly, no monies are transferred out of the Glas Cymru group of companies under this Policy.

Appointee Dividends

Dividends may be paid intra-Group from the Appointee, in order to enable funding of commercial projects in non-regulated Associate Companies, profits from which would be used to invest in customer services provided by the Appointee. No such dividends have been paid since 2017.

For AMP7 (2020-25) Dŵr Cymru has set its proposed base dividend yield below the level referenced by Ofwat for a reasonable base dividend yield at PR19 and below the 3% modelled by Ofwat in the Final Determination.

2. Purpose and amount of dividends

2.1 It is intended in relation to any future Dividends (and change in dividend yield) from the Appointed Business that the Board will, in recording its decision to pay any Dividends, consider the points set out below including the Primary restriction on dividends, and other matters listed, and in particular, will include detail as to how it has taken into account the following matters:

- (i) how it has taken into account factors such as obligations and promises to customers, delivery of service to customers, financial resilience and employee interests; and
- (ii) how the Appointed Business has delivered against performance levels as set out in the final determination and elsewhere; and how performance delivery has impacted on dividends paid.

2.2 As agreed with our bondholders and set out in our Articles of Association, aggregate dividends of no more than £100,000,000 (indexed) may be declared and paid for the purposes of funding the establishment, acquisition or operation by any Associated Company of additional commercial businesses or companies operating predominantly in the utility and infrastructure sectors in the UK.

- 2.3 Glas Cymru is committed to publishing a statement on its dividend policy annually in the Appointee's Annual Performance Report and in the group statutory Report and Accounts. This will include explaining how the points under 2.1 above have been taken into account in considering any dividend payments, and details of any change in dividend policy.

3. Primary restriction on dividends

- 3.1 No dividend shall be declared or paid unless the directors reasonably believe that such declaration or payment will not impair the ability of the Appointee to meet its key commitments to customers and other stakeholders or to finance the Appointed Business, and in particular that such declaration or payment will not prevent the Appointee from meeting its obligations under its financing arrangements for the subsequent 12 months.
- 3.2 In making its assessment the Board will take into account delivery against the current final determination – in the form of performance commitments with associated ODIs and any ODI penalties or rewards earned. It will also take into account the long-term financial resilience of the company in relation to liquidity, distributable profits, cash facilities and financial ratios.

4. Other restrictions on dividends

- 4.1 The Appointee shall only declare or pay dividends in accordance with the restrictions imposed by:
- (i) the Companies Act 2006, and in particular section 830 of that Act;
 - (ii) the Appointee's Articles of Association;
 - (iii) the Licence, and in particular paragraphs 12, and 26 and 29 of condition P to the Licence as set out in the Appendix;
 - (iv) the Appointee's financing arrangements including the management of economic risk and compliance with financial covenants; and
 - (v) this Policy.
- 4.2 When recommending, declaring, or assessing the amount of any dividend, the directors shall have regard to the following legal and regulatory obligations:
- (i) their common law duties;
 - (ii) their statutory duties, and in particular their duties under sections 171 to 177 of the Companies Act 2006;
 - (iii) any applicable guidance issued by Ofwat, including without limitation to, the expectations on dividend policy set out in Ofwat's 'Putting the Sector in Balance' position statement, the guidance set out in the PR19 Final Determination appendix: Aligning Risk and Return, and Ofwat's Board Leadership, Transparency and

Governance principles statement which requires that companies should provide a detailed explanation of their approach to the dividend policy; and

- (iv) the publicly stated policies and objectives of the Appointee and the Appointed Business from time to time.

5. Interpretation

5.1 In this Policy:

- (i) **“Associated Company”** means a company in the Glas Cymru Group of companies which could undertake commercial investment outside of the Common Terms Agreement, which governs the Group’s securitisation over its regulated business under Glas Cymru Anghyfyngedig (companies under Glas Cymru Anghyfyngedig, comprise Glas Cymru (Securities) Cyfyngedig, Dŵr Cymru (Holdings) Limited, Dŵr Cymru and Dŵr Cymru (Financing) UK Plc.
- (ii) **“directors”** means the directors of the Appointee, and includes any person occupying the position of director, by whatever name called;
- (iii) **“indexed”** means indexed to the United Kingdom Consumer Price Index (CPI(H)) as published by the Office for National Statistics, or such other benchmark as Ofwat may adopt from time to time;
- (iv) **“Licence”** means the Instrument of Appointment by the Secretary of State for Wales of Dwr Cymru Cyfyngedig as a water and sewerage undertaker under the Water Act 1989, amended and restated as of 2021;
- (v) **“Final Determination”** means the allowed revenues and costs set out by Ofwat;
- (vi) **“PR19” or “AMP7”** means the Ofwat Price ~Review covering the period 2020-25 (1 April 2020 to 31 March 2025); and
- (vii) other capitalised terms have the same meanings as those given to them in the Licence.

Appendix:

Relevant Licence conditions referenced in the Dividend Policy:

Dividend policy

P29 The Appointee shall declare or pay dividends only in accordance with a dividend policy which, in the written opinion of Ofwat, will not impair the ability of the Appointee to finance the Appointed Business.

Assets, rights and resources

P12 To enable it to carry out the Regulated Activities the Appointee must, at all times, act in a manner which is best calculated to ensure that it has in place adequate:

P12.1 financial resources and facilities;

Investment grade rating

P26 The Appointee must ensure that it or any Associated Company which issues corporate debt on its behalf maintains, at all times, an Issuer Credit Rating which is an Investment Grade Rating.