

A scenic view of a dam with a stone tower and a bridge over a reservoir, with rolling hills in the background. The sky is overcast and grey. The water is calm, reflecting the surrounding landscape. The dam structure is made of stone and metal, with a prominent tower on the left side. The bridge is a long, narrow structure with a metal truss design. The hills in the background are covered in sparse vegetation and some snow patches.

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Annual Investors' Update

July 2017



Introduction

Alastair Lyons, Chairman

Financial results and financing update

Roger Morgan, Treasurer

Operational performance, PR19 and Water 2050

Chris Jones, Chief Executive

Customer distributions and new business opportunities

Peter Bridgewater, Finance Director

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Croeso

Welcome

Alastair Lyons, Chairman

Film

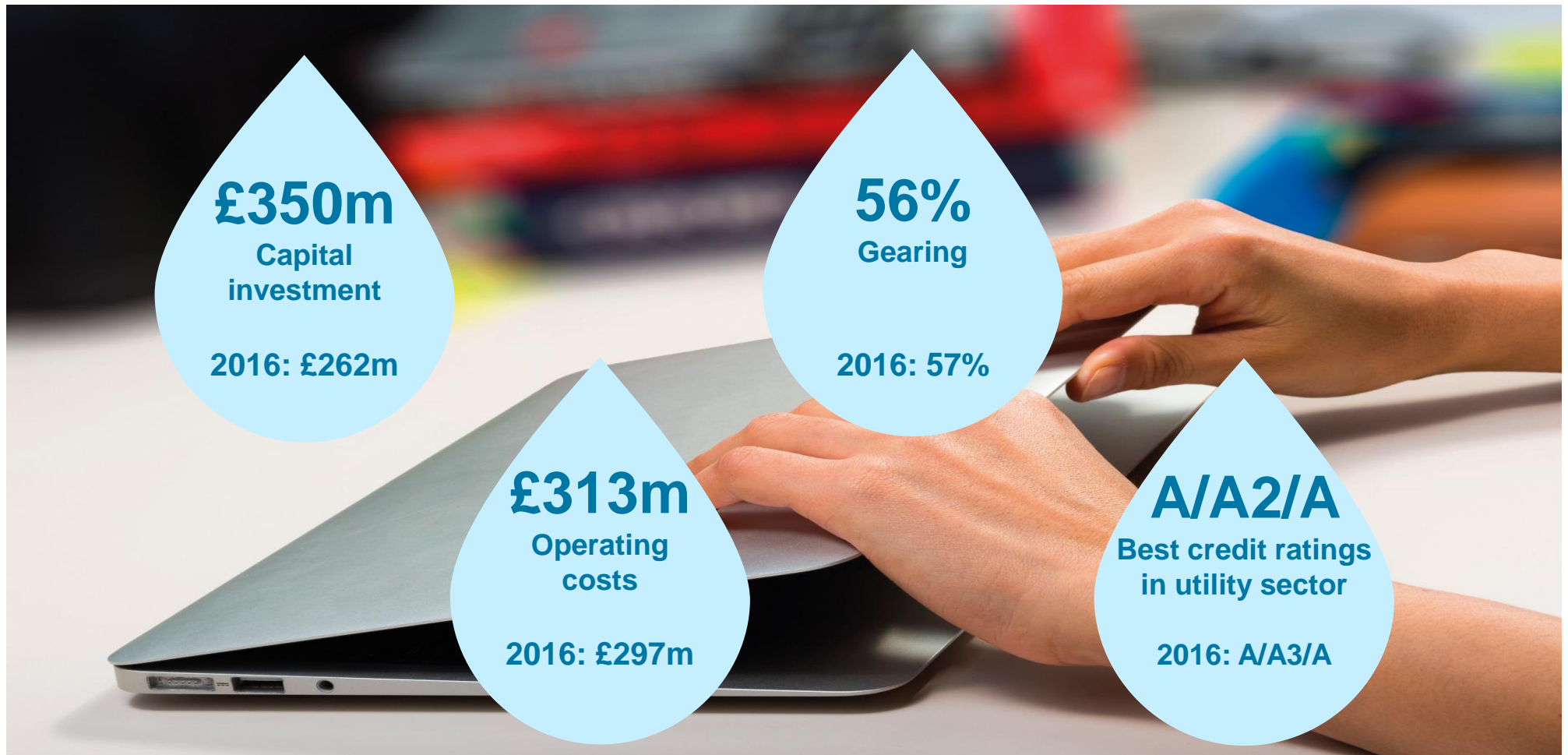
2017 Prelims film



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Financing update
Roger Morgan, Treasurer

Preliminary Results - 2017



Group cashflow and net debt

Year ended 31 March (£m)	2017	2016
Revenue (RPI + K = 1.39%)	744	743
Operational expenditure	(313)	(297)
Exceptional items	-	20
EBITDA (before IRE)	431	466
Net working capital movements	(32)	(7)
Capital expenditure	(350)	(262)
Net interest payable (incl. indexation)	(150)	(126)
(Increase)/decrease in net debt	(101)	71

Totex - extract from the Annual Performance Report

	2016/17 Totex		
	Wholesale	Retail	Total
	£'m	£'m	£'m
Allowed totex at outturn prices	604	57	661
Actual totex at outturn prices	584	63	647
Difference	20	(6)	14

	AMP6 Totex		
	Wholesale	Retail	Total
	£'m	£'m	£'m
	1,118	117	1,235
	1,041	132	1,173
	77	(15)	62

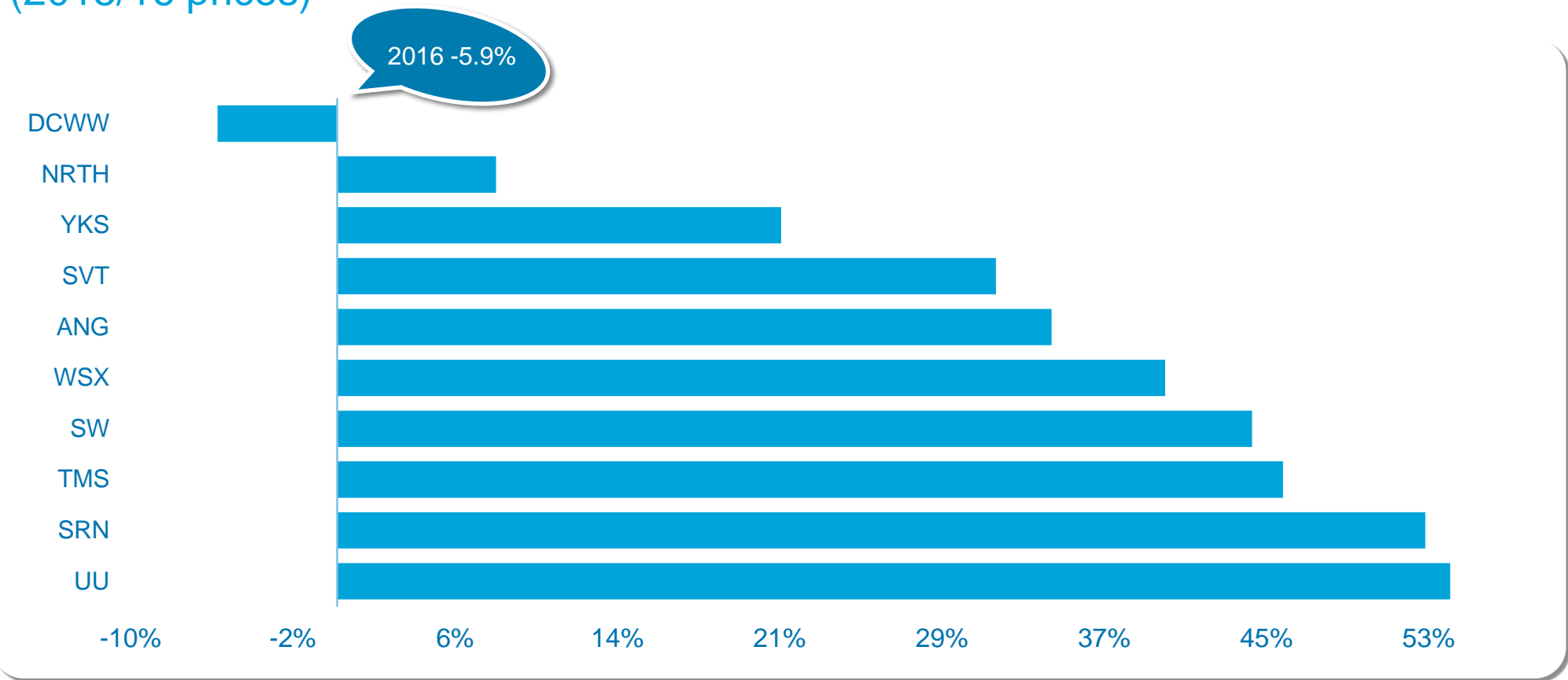
Difference analysed as:

Capex reprofiling	7	-	7
Opex over/(under)performance	13	(6)	7
Total	20	(6)	14

	49	-	49
	28	(15)	13
	77	(15)	62

Operating costs 2001-2016

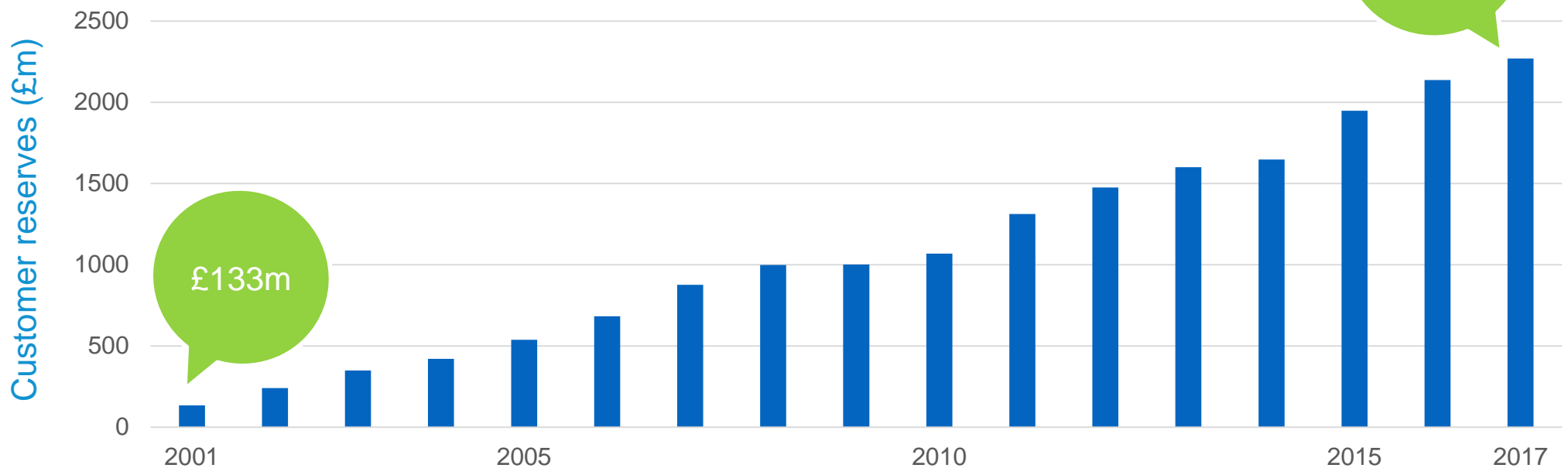
% change in opex by company since 2001
(2015/16 prices)



Net debt and regulatory gearing

As at 31 March (£m)	2017	2016
Regulatory Capital Value (RCV)	5,217	4,983
Net debt	(2,947)	(2,846)
Financial reserves	2,270	2,137
Gearing	56.4%	57.1%

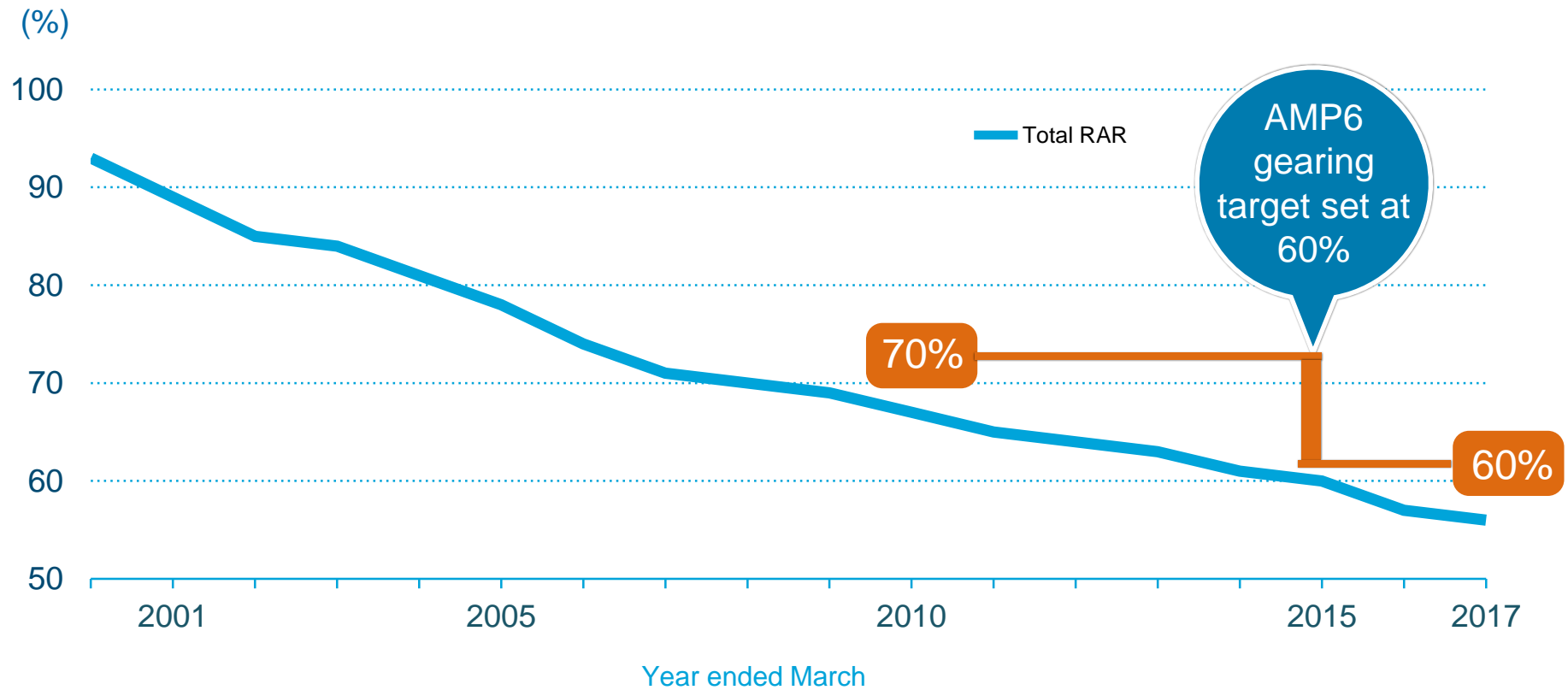
Customer equity/reserves



Regulatory gearing

Regulatory Asset Ratio (RAR)

Board gearing target supporting an 'A rating' objective



AMP6 Financing plan - Summary

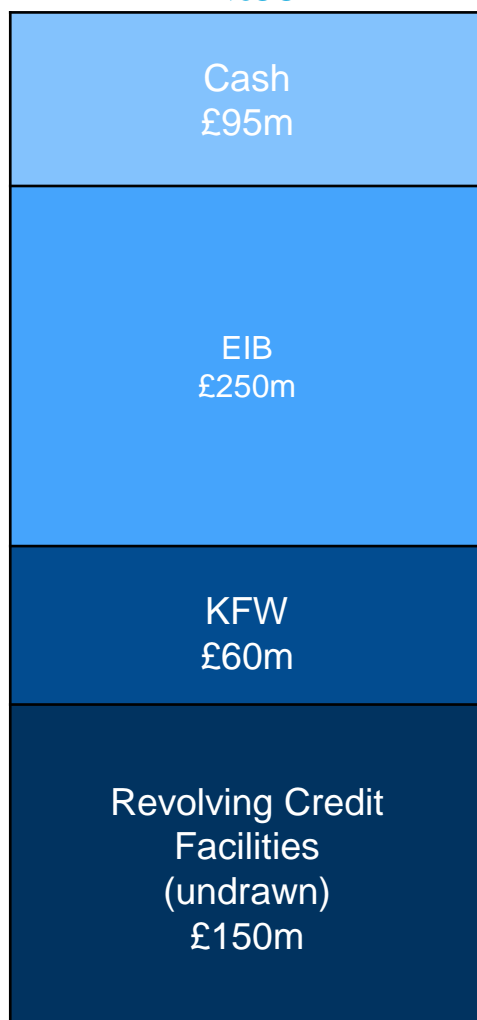
	Business Plan	Approved Distributions
	£m	£m
Funding required	887	838
EIB & KfW (of which £250m undrawn)	(540)	(540)
Further funding required	347	298

Notes

1. Target gearing and distributions will determine our future capital market funding strategy and its timing
2. The company also has undrawn revolving credit facilities of £150m

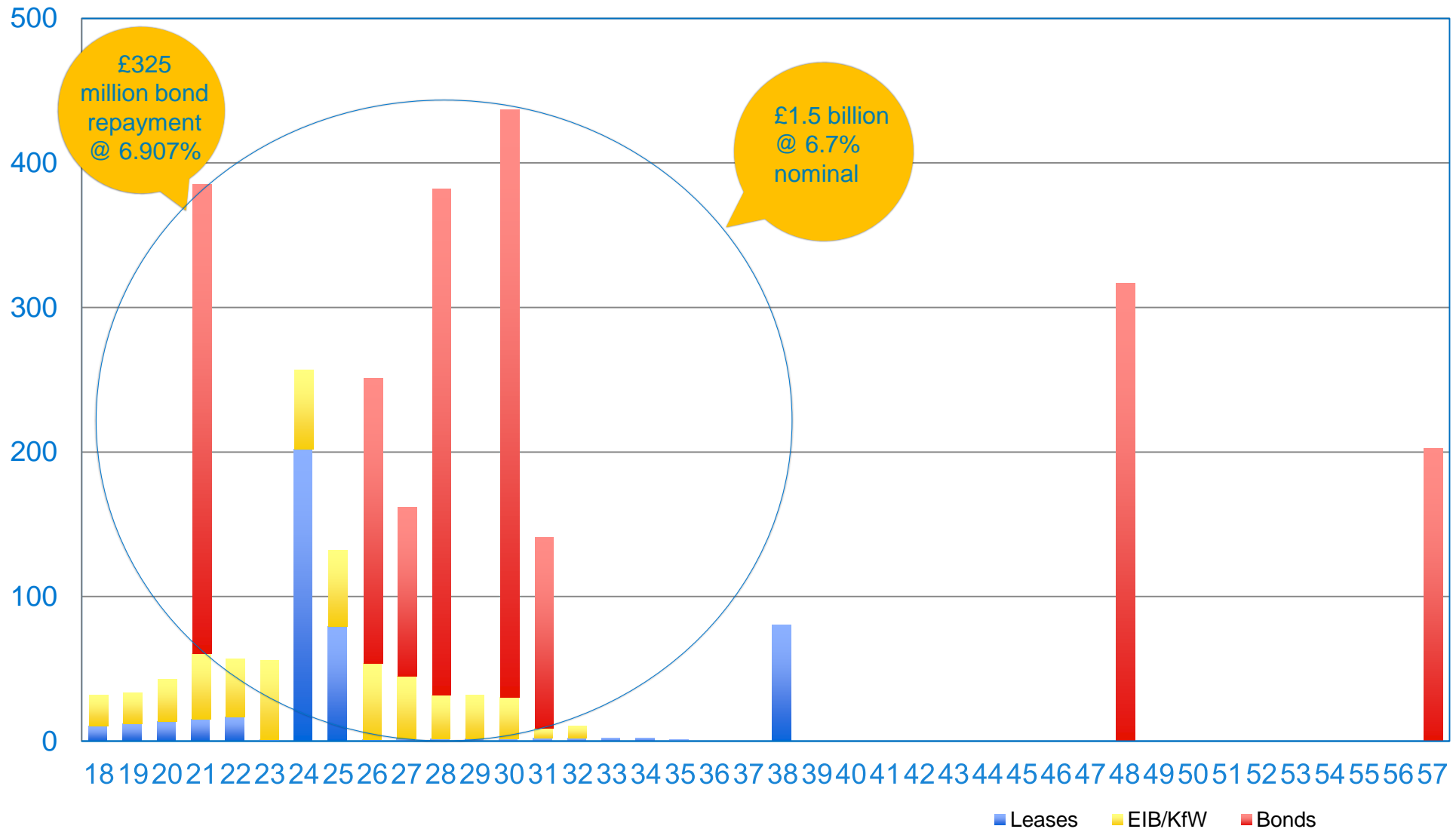
Liquidity – as at 31 March 2017

Liquidity as at 31 March 2017
£552m



- Strong liquidity position of £552 million as at 31 March 2017
- KfW £60m 10 year facility drawn 19 May 2017
- Revolving credit facilities available until 2019/20
- £250m AMP6 loan funding agreed with EIB and available until January 2019
- Prudent investment policy for surplus cash continues with deposit maturities limited to maximum of one month and focus on bank credit ratings.

Maturity profile of debt



Summary

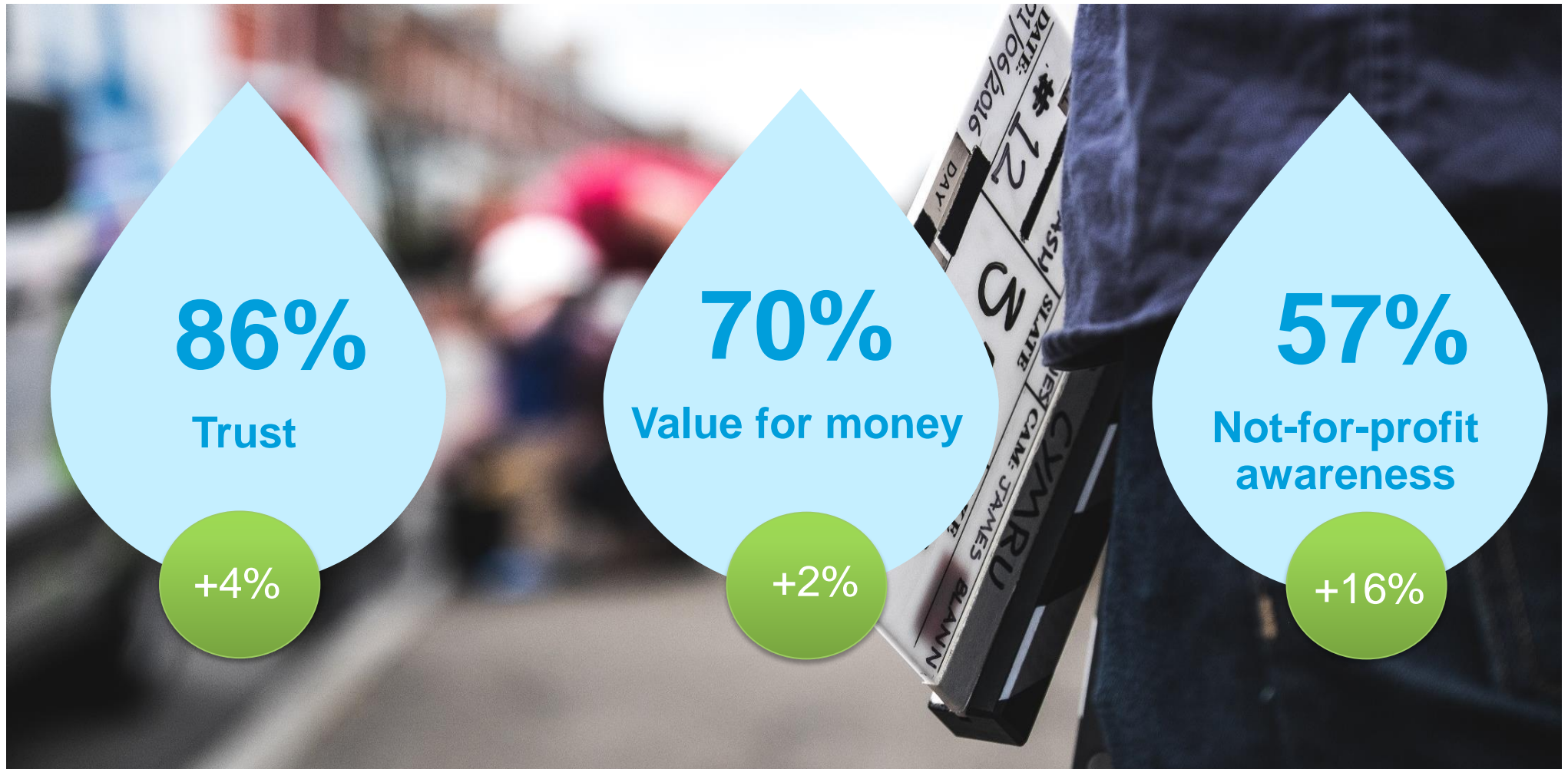
- Solid 2017 financial performance supporting targeted credit-standing
- Wholesale expenditure is on track to deliver AMP6 allowed Totex
- Capital programme has accelerated with capex outturn of £350m and expected to be on track for the remainder of the AMP
- £250m of AMP6 further funding in place with EIB and available until January 2019
- Regulatory gearing reduced to 56% - consistently maintained below 60% gearing policy. However gearing is planned to move closer to 60% during AMP6 in line with the Group's distribution policy
- Strong liquidity but... now focusing on additional longer term funding options to address residual funding requirements AMP6 and AMP7

The image shows a large dam structure with a prominent stone wall in the foreground. In the center, there is a cylindrical tower with a domed top. The dam is situated in a valley with rolling hills in the background under a clear blue sky. The word "glas" is written in a white, lowercase, serif font in the upper right corner.

glas

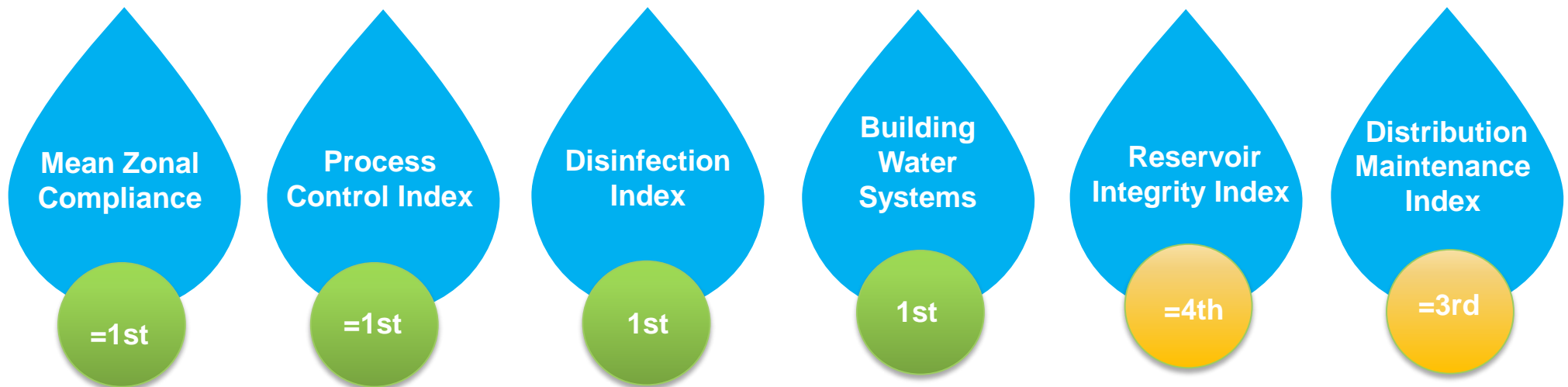
Operational Performance
Chris Jones, Chief Executive

What do our customers think in terms of...



Water Services – Drink Water Inspectorate's Six Water Quality Measures 2016

Based on relative ranked position within the 10 WaSCs

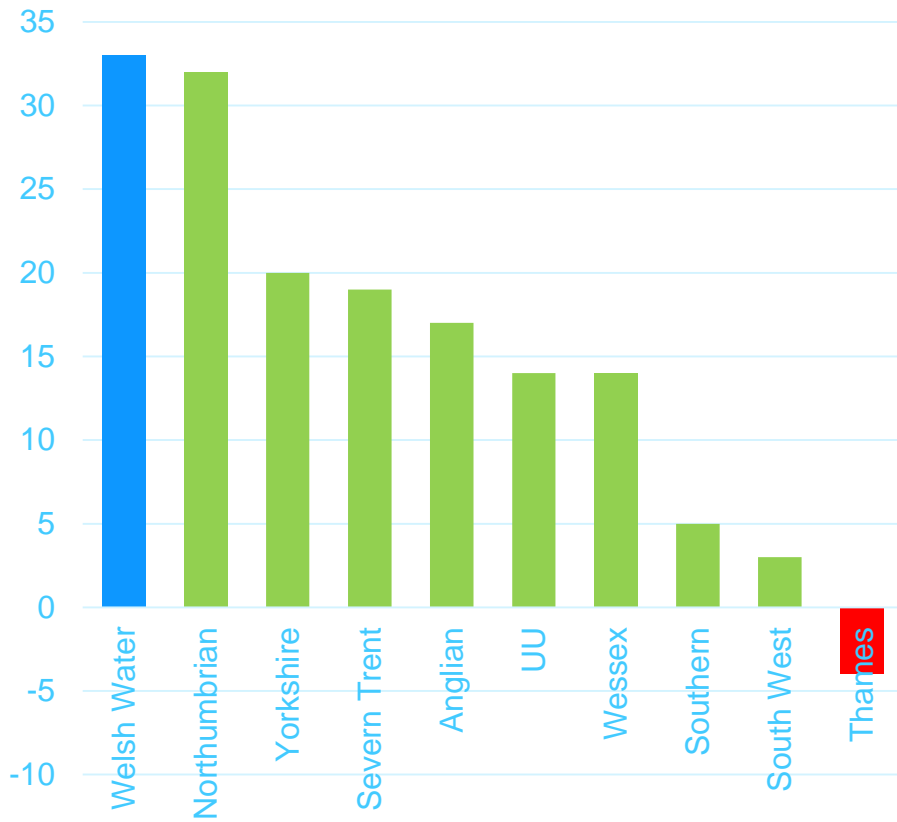


Operational performance – Improving performance against stretching AMP6 targets

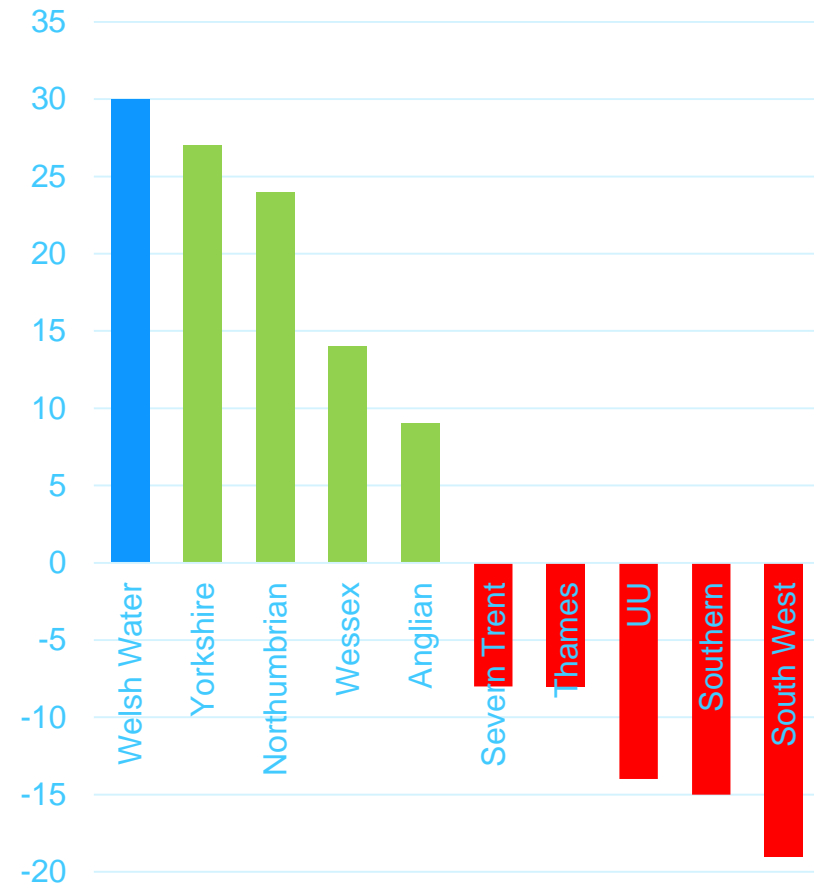
Measures	2015/16 performance	2016/17 performance	FD Target 2020
Safety of drinking water	99.96%	99.97%	100%
Customer contacts (per 1,000 population)	3.08	3.2	1.23
Water supply interruptions	21.74 mins	12.15 mins	12 mins
Leakage	180ml/d	175.4 ml/d	169ml/d
Pollution incidents	110	111	131
Sewer flooding (properties)	223	242	269

New record: 50 'Blue Flags' for Welsh bathing waters

Net Promoter Score for Household Customers (CCWater - Water Matters 2017)

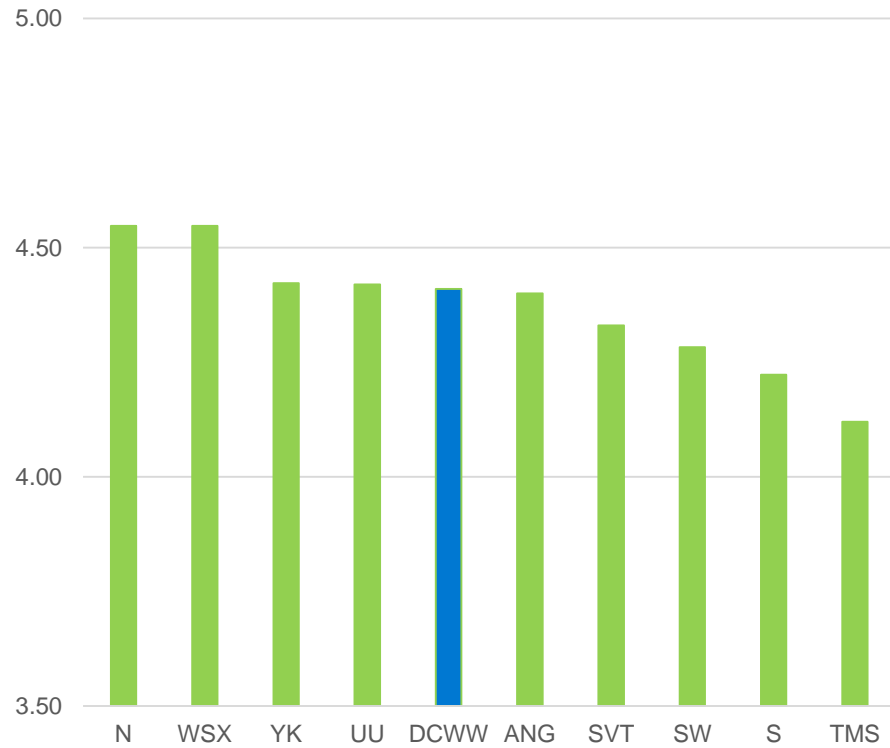


Net Promoter Score for Business Customers (CCWater - Testing the Waters 2016)

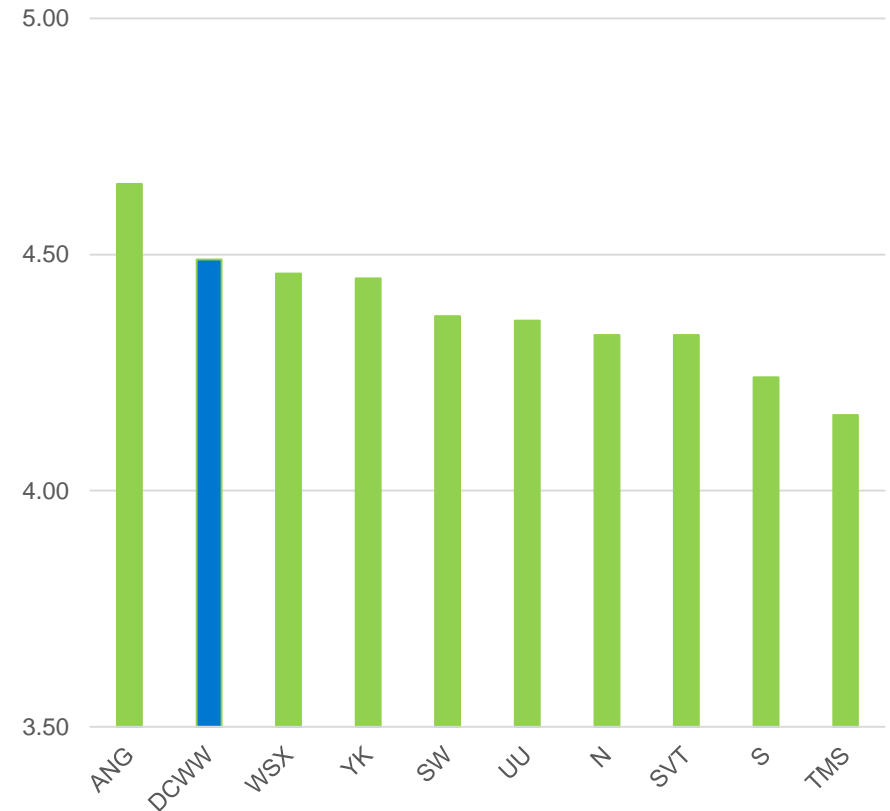


Operational performance – customer satisfaction

2016/17
Ranked 5th



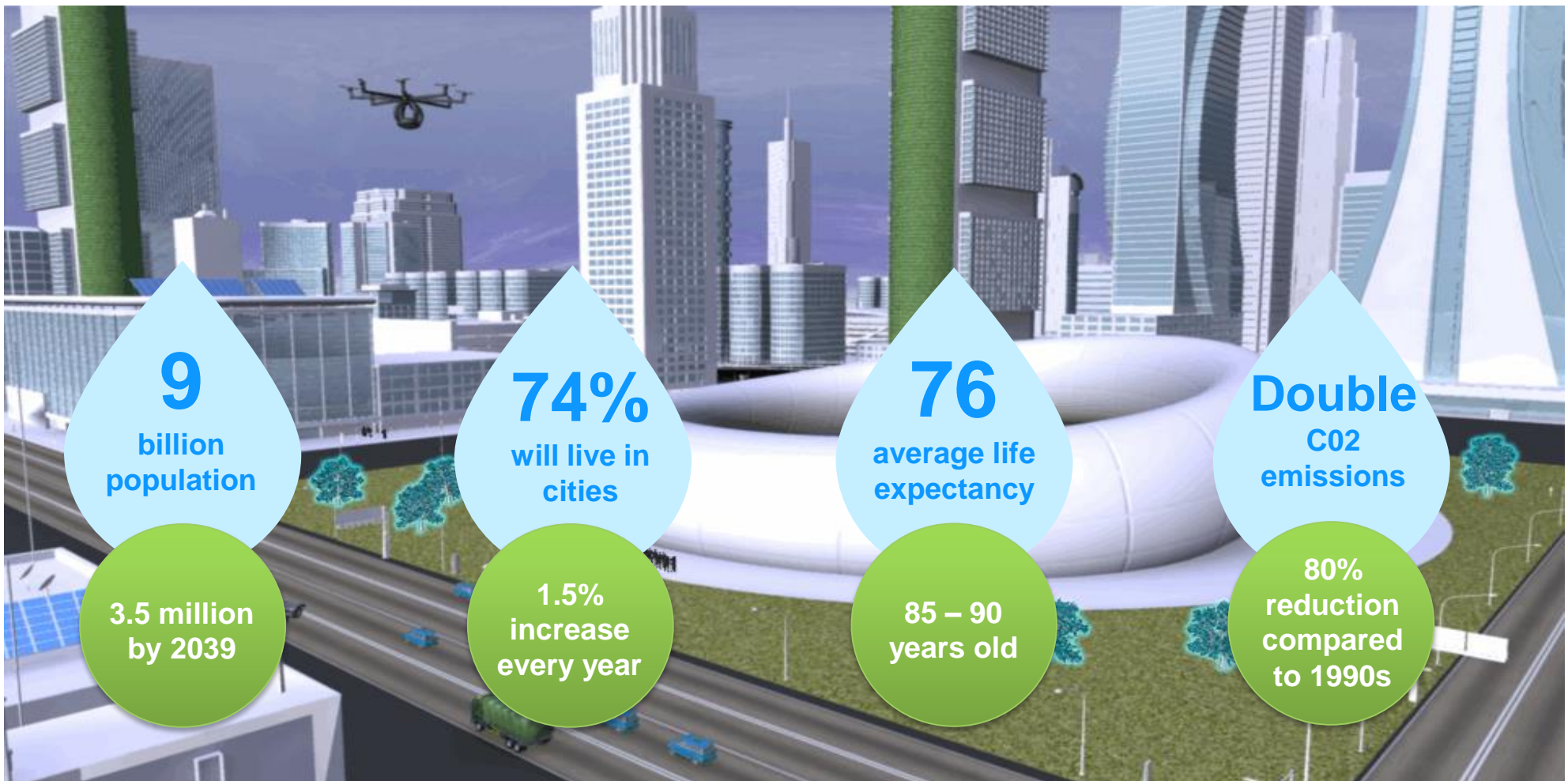
Q1 2017/18
Ranked 2nd



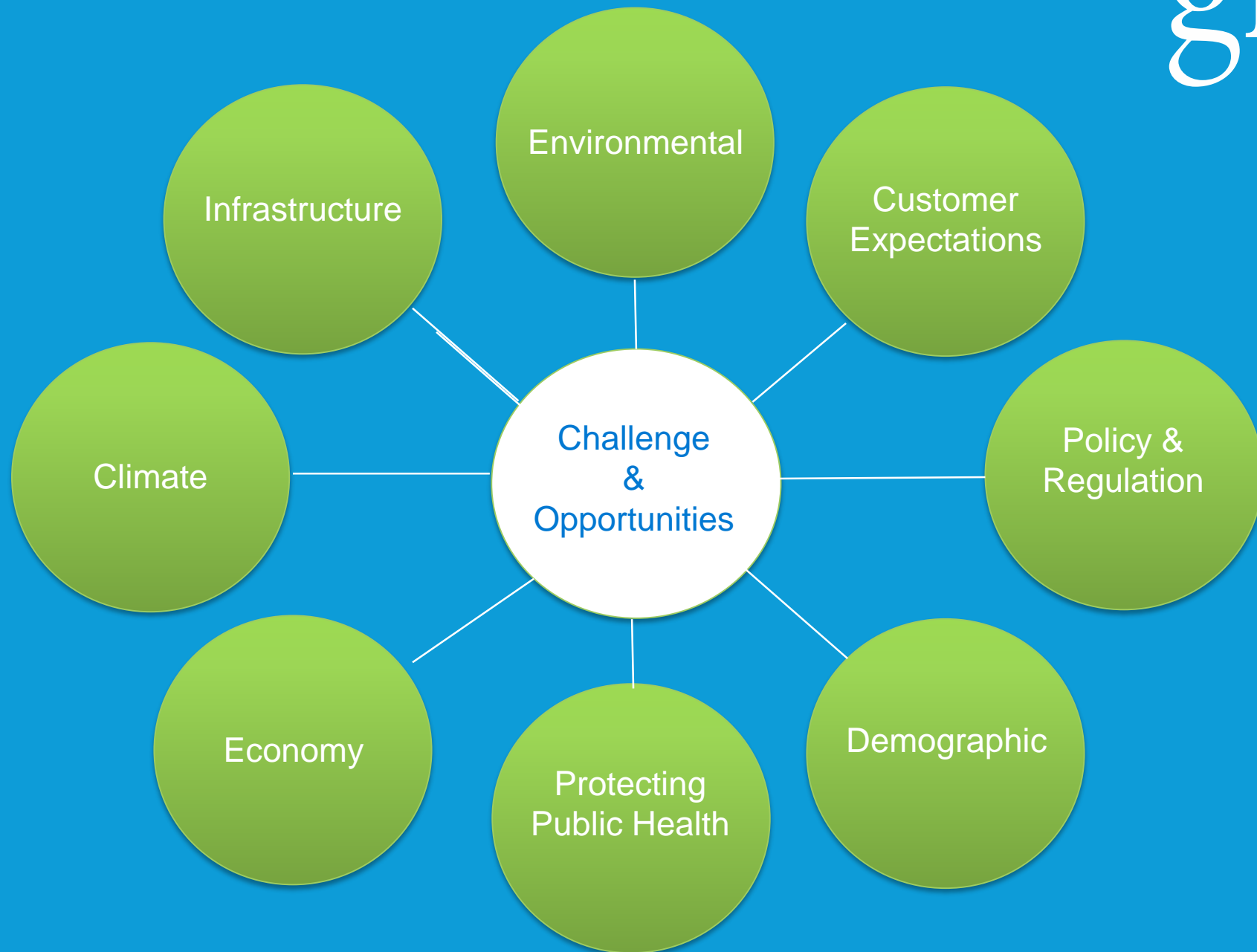
Written Complaints

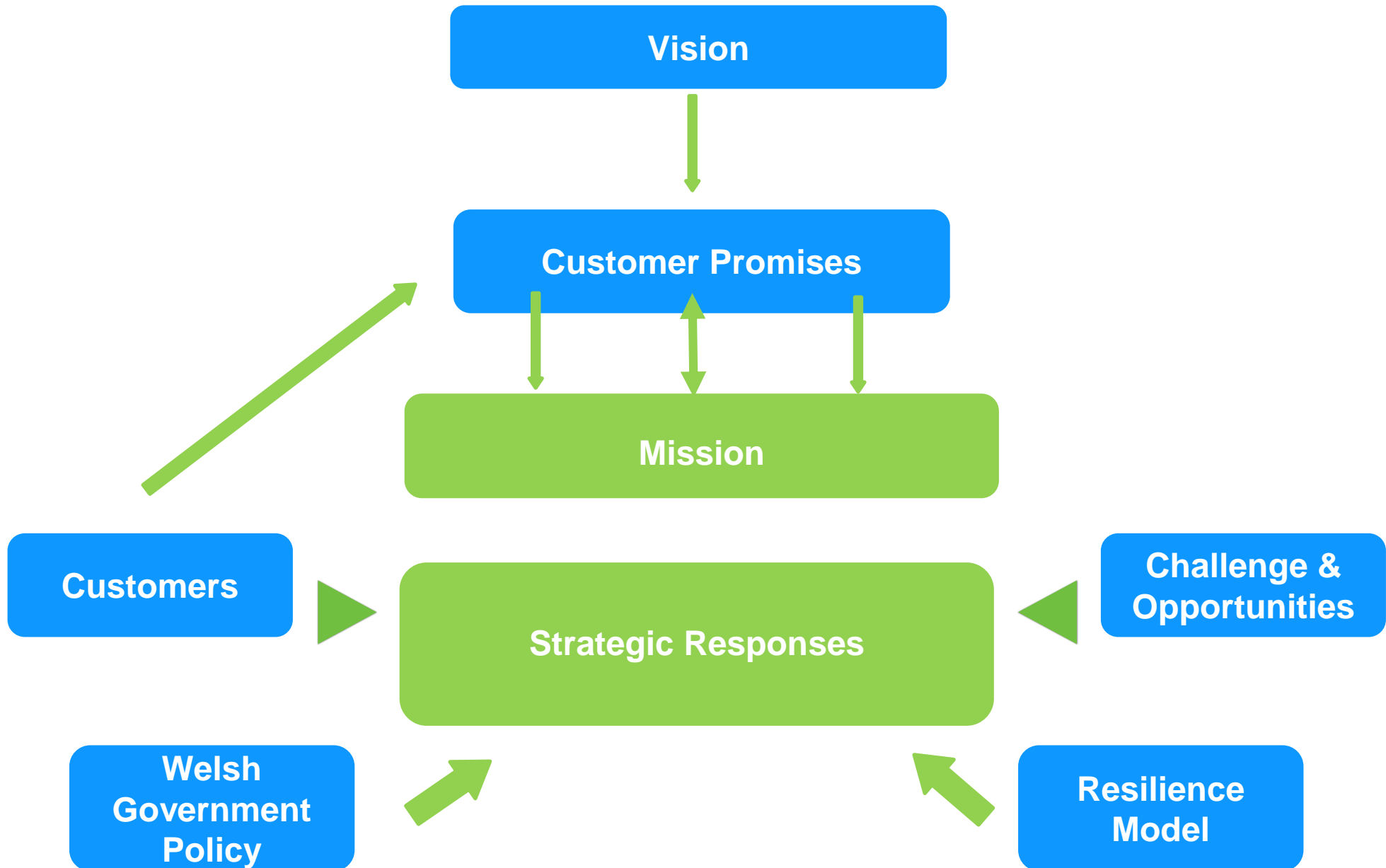


World in 2050 - Wales



“**Welsh Water 2050** - to be a truly world class, resilient and sustainable water service for the benefit of future generations of customers.”





SR1: Safeguarding clean drinking water by working with nature

SR2: Enough water for all

SR3: Improving the reliability of drinking water supply systems

SR4: Protecting our critical water supply assets

SR5: Achieving acceptable water quality for all customers

SR6: Towards a lead free Wales

SR7: Addressing our 'worst served' customers



SR8: Employer of choice

SR9: Leading edge customer service

SR10: Smart water system management

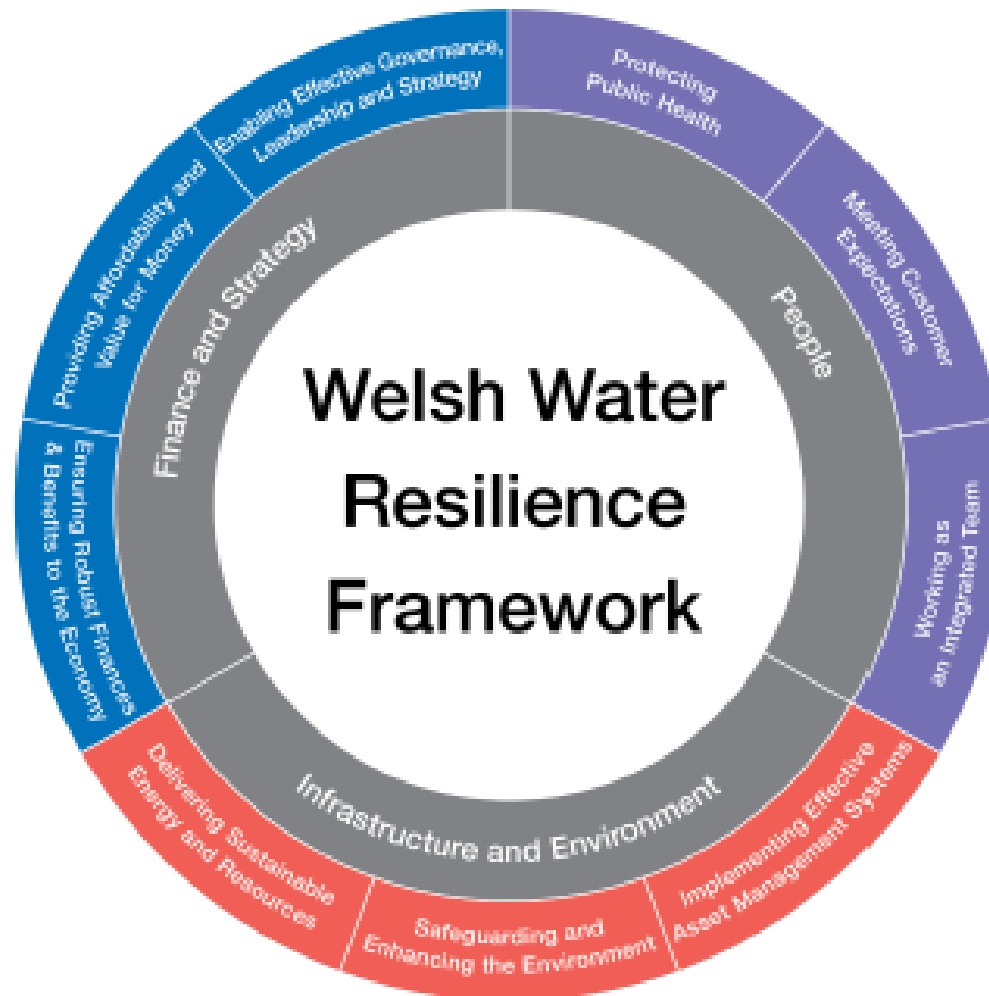
SR11: Using nature to reduce flood risk and pollution

SR12: Cleaner rivers and beaches

SR13: Protecting our critical wastewater assets

SR14: Playing our part in combating climate change

Welsh Water Resilience Framework



Film

Customer consultation advertisement



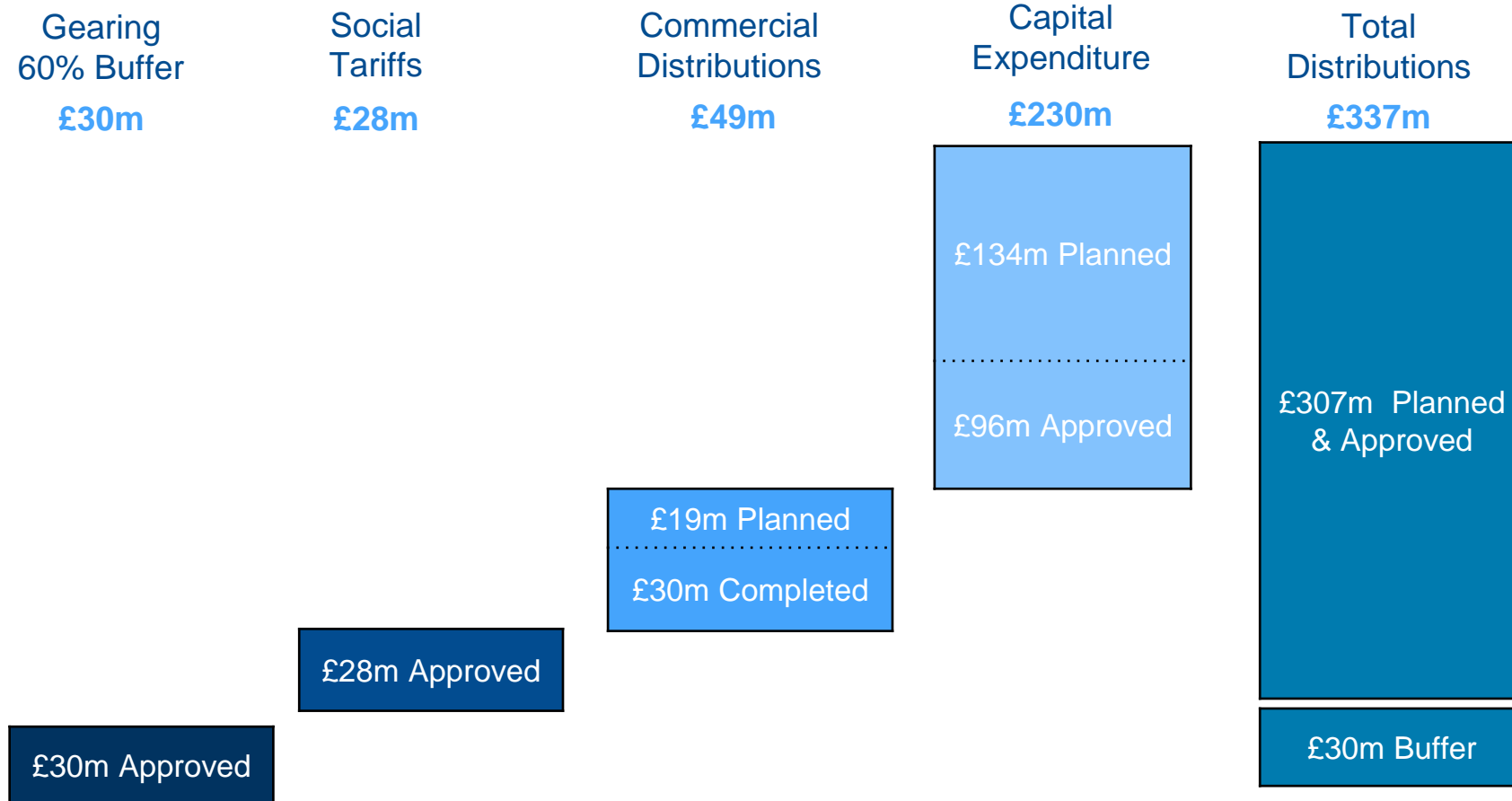
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Customer distribution policy and new business opportunities

Peter Bridgewater, Finance Director

Indicative distribution policy

Distributions: High-level 5 year allocation in principle

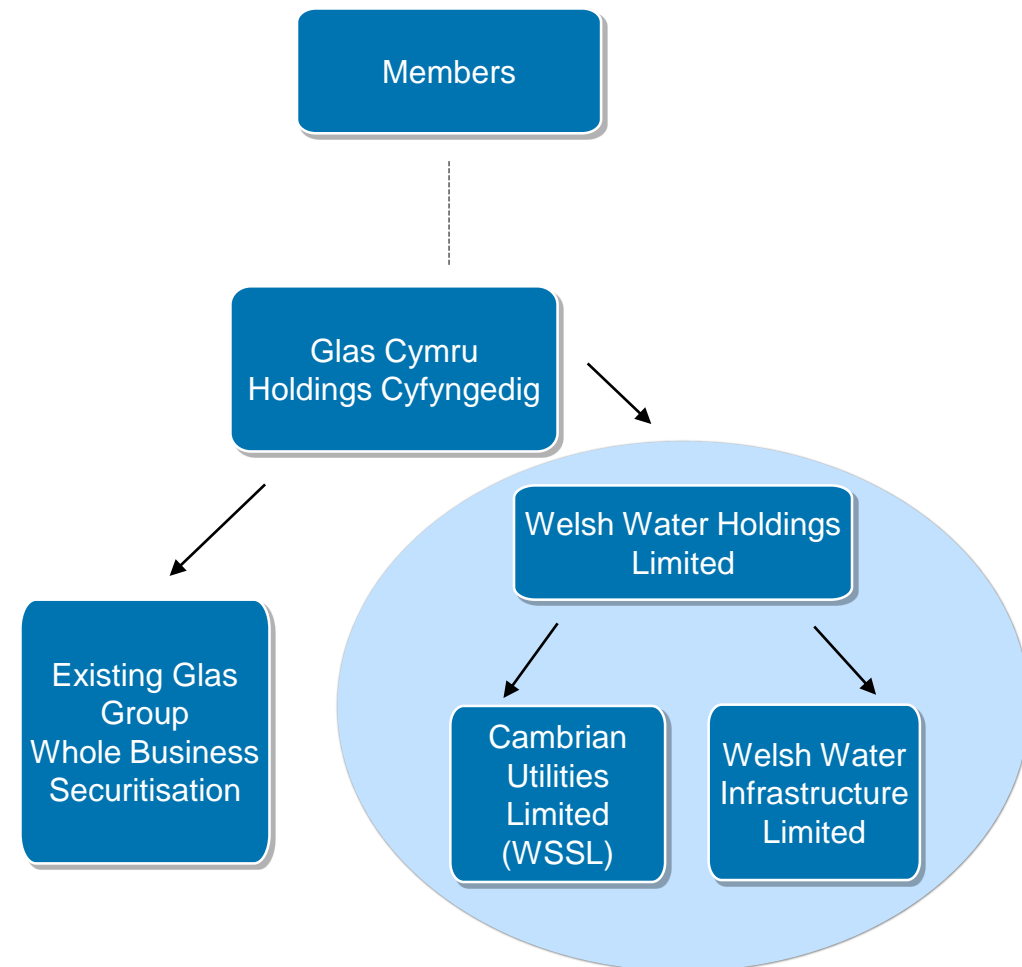


Customer distribution update at June 2017

	Approved Customer Distributions £m	Potential Recovery at PR19 £m	Return of Value £m
Accelerated investment:			
Visitor centres	11	5	5
Customer systems	11	5	5
Improving performance (sewer blockages, external flooding, zonal studies)	27	14	14
Reducing risk (control systems, 'run to waste')	10	5	5
	59	29	29
Social tariff subsidy 2017-2018	5	-	5
	64	29	34
Commercial business funding	30		
Per business plan	94	29	34

Group re-structure to facilitate unregulated business opportunities

- New holding company set up on 1 March 2016
- Approval from secured investors and Glas members
- Max £100 million of funding – subject to restricted payment tests for cash lock-up
- £30m released by Board for initial funding to date
- External market changes came into force in England in 2017 to open up competition in the water market
- Customers are asking for multi-site billing services and wider retail services
- Welsh Water has restructured to meet these demands through a phased approach



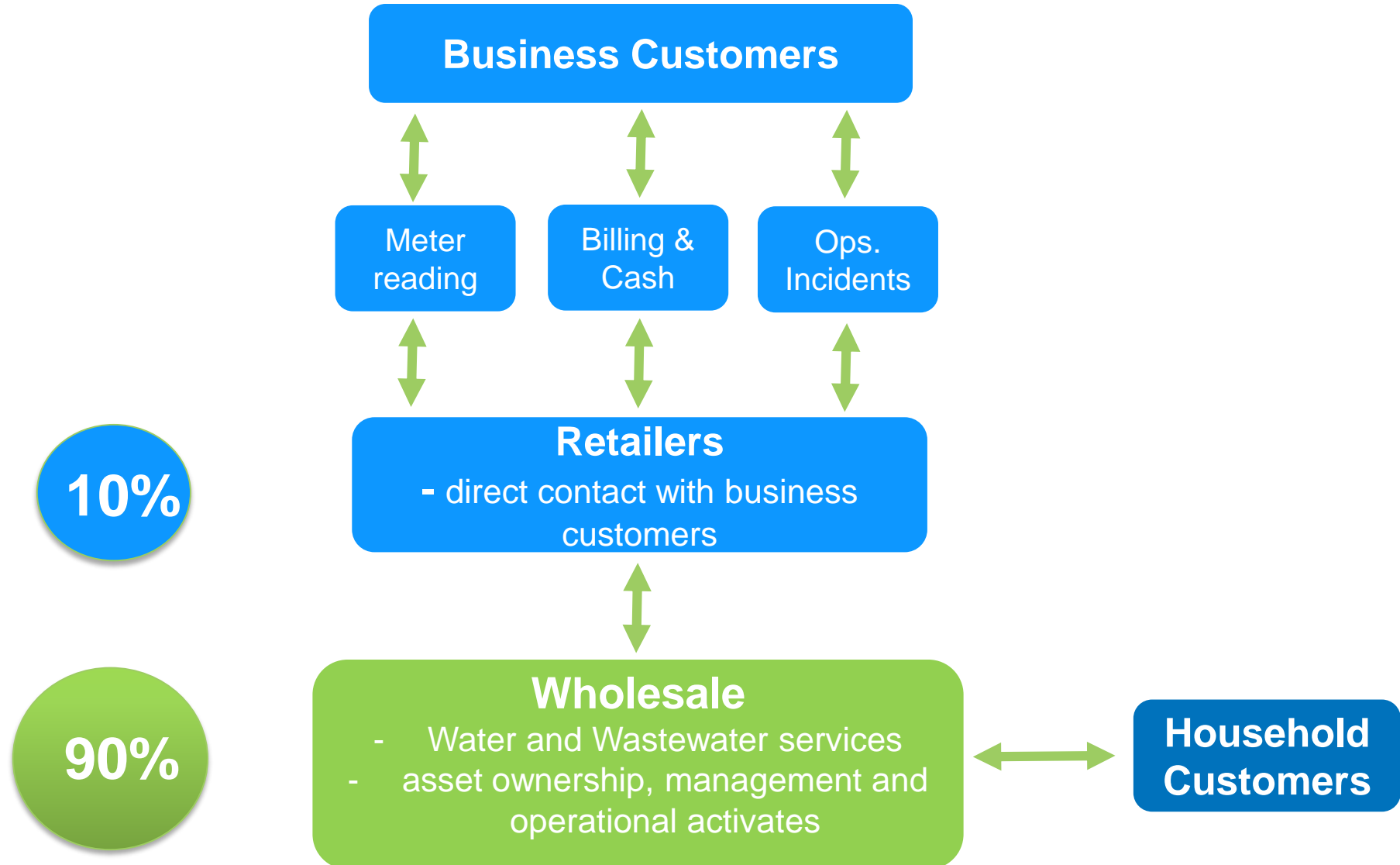
Aims of the new companies

Retail

- To continue to work for our existing and new customers and be led by them
- Provide value through a cross border retail service which meets the needs of customers with multiple sites
- Offer products and services to enhance their business growth
- Build partnerships with service providers
- Ensure all our business customers are well-served

Investments

- Develop and invest in utility projects
- The Group is at an advanced stage in acquiring a garden and food waste digestion plant that creates an energy supply for our core business
- Consider projects which enhance our customers' businesses



Open Water market

'England'

- Retail competition for all 1.2 million business customers – water & wastewater services

'Wales'

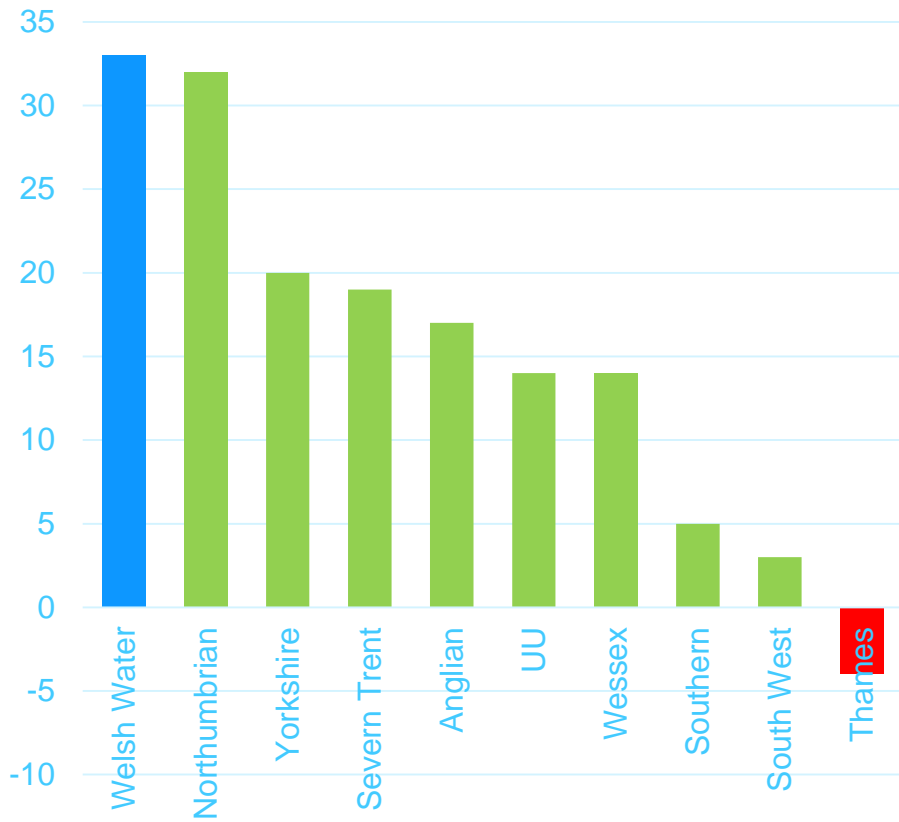
- Only customers using more than 50MI/d – water services only

Welsh Water's customer base

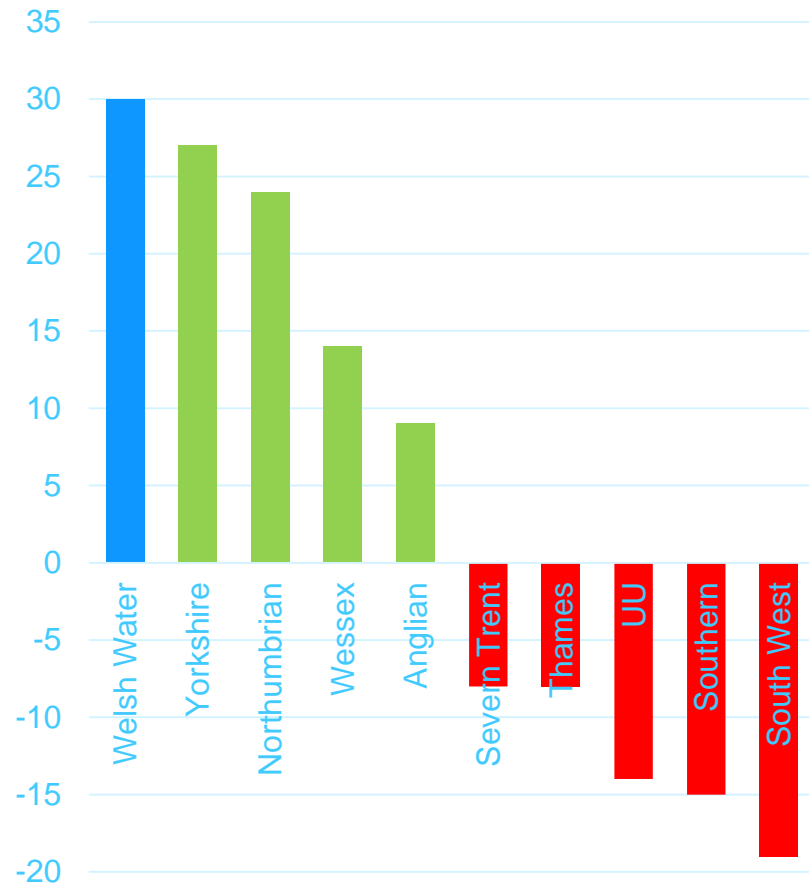
- 1.3 million (92%) household customers
- 100,000 (8%) business customers & 15% of total retail revenue
- Approx. 80 business customers eligible for retail competition
- 8,000 business customers in England will be eligible under Wales Act 2017



Net Promoter Score for Household Customers (CCWater - Water Matters 2017)



Net Promoter Score for Business Customers (CCWater - Testing the Waters 2016)



Our Business Customers



Changing expectations

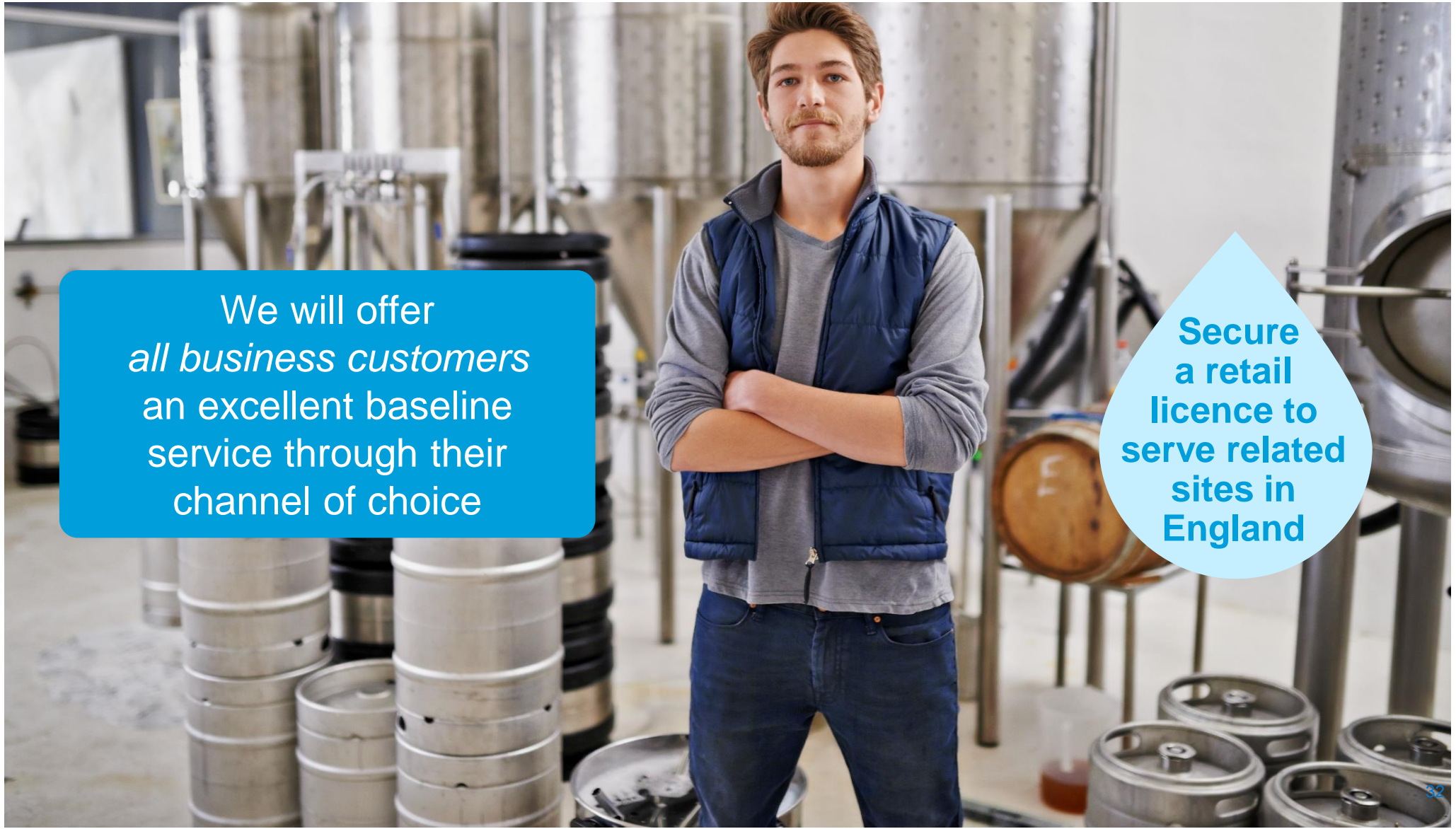
New retailer business models

Understand & meet customer needs

What do customers want from a water utility?

How do customers want to be served?

Our Strategy for Business Customers & Next Steps



We will offer
all business customers
an excellent baseline
service through their
channel of choice

Secure
a retail
licence to
serve related
sites in
England

Q&A



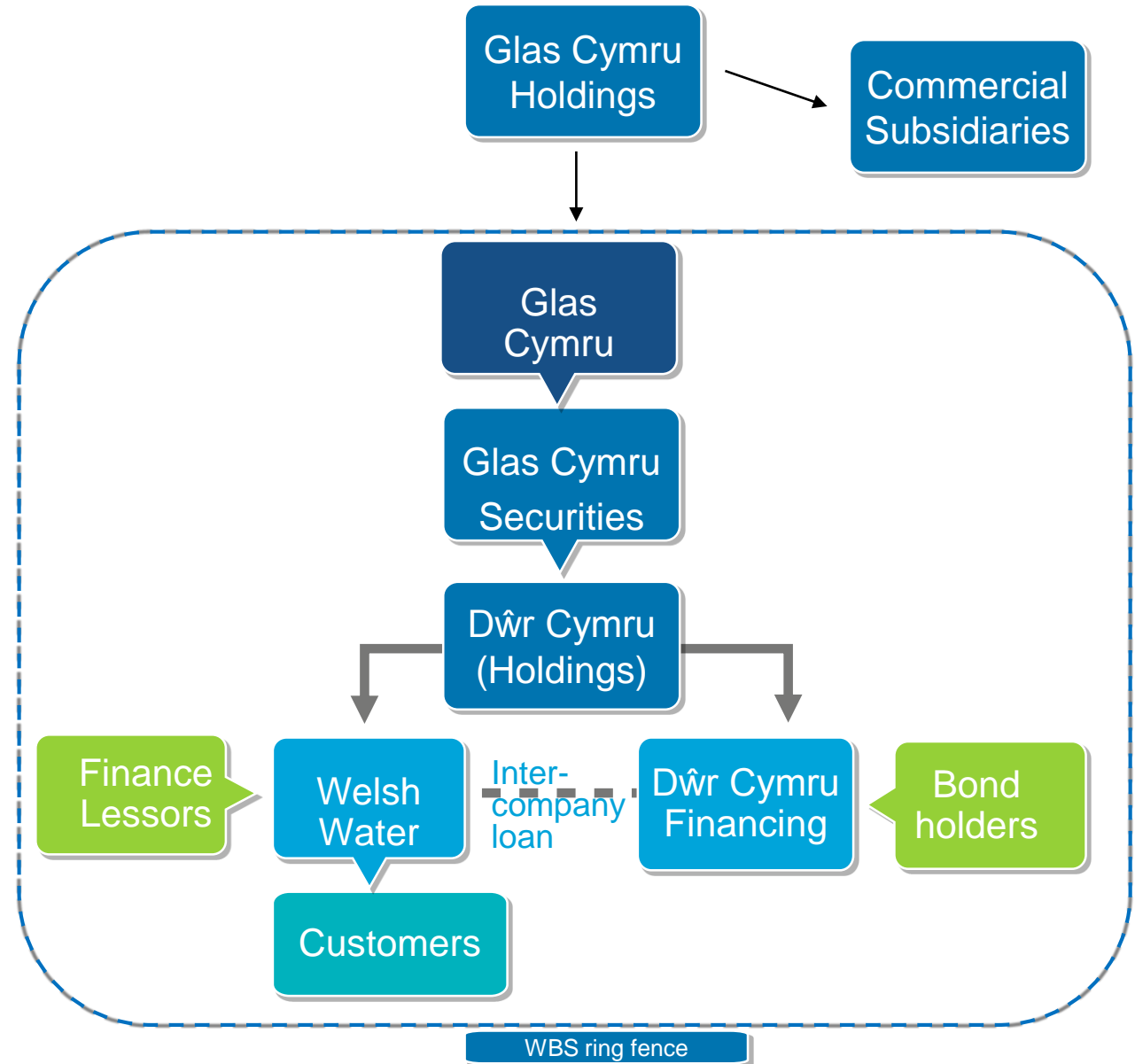
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Appendices

Dŵr Cymru Welsh Water's operational area



Structured finance

- Dŵr Cymru Cyf (Welsh Water) is the regulated water and wastewater utility
- Dŵr Cymru (Financing) Ltd is a special purpose financing vehicle which on-lends funds to Welsh Water
- All senior financial creditors have benefit of a common package of structured finance covenants and security over shares of Welsh Water in the event of default
- Bonds are listed on the Luxembourg Stock Exchange
- Glas Cymru Holdings formed on 1 March 2016. Commercial subsidiaries outside WBS ring-fence.



Structured finance – covenant package

Normal business	Trigger event step-in period	Default standstill period	Special administration
Operating within covenant package	One or more financial or operational 'trigger' covenants breached	One or more events of default occur and continue	
No creditor involvement	No customer dividends Option to commission independent review	Majority of secured claims frozen 18 month opportunity to remedy situation or find a buyer for Welsh Water Liquidity facilities keep senior debt whole Security over shares of Welsh Water and holding company can be enforced	Regulator applies to court to appoint a Special Administrative Receiver (SAR) to run business SAR acts in interest of creditors and customers
Financial covenants: Senior ICR Senior PMICR Gearing (senior debt + BBB]	<2.0 <1.0 >90% (>85% from 11.05.17)	<1.6 n/a >95%	

Operational expenditure

Pre-exceptional items

Year ended 31 March (£m)	2017	2016
Employee costs	86	81
Power	41	43
Chemicals, materials and equipment	15	15
Water and sewerage contractors	19	15
Other outsourced costs	39	32
Laboratories and analytical services	1	1
Vehicles and plant	8	7
Office and property costs	10	11
Insurance	6	5
Collection commissions	4	4
IT contracts	16	14
Research and development credit	-	(1)
Bad debts	23	27
Rates*	30	25
Regulators' charges	15	15
Other costs	-	3
Total operational expenditure	313	297

- Overall operational costs (excluding a £20m business rates refund received in 2015/16) have increased by 5.5% (including RPI)
- Cost pressures experienced over a number of categories including water and sewerage contractor costs. These have increased by nearly 24% following the renegotiation of contractor fees to ensure the services' sustainability
- Lower bad debt provision reflecting the company focus on improved collection performance
- Wholesale opex is on track to deliver AMP6 allowed Totex

* 2016 business rates flattered by £5m one-off rebate so underlying numbers are unchanged YOY

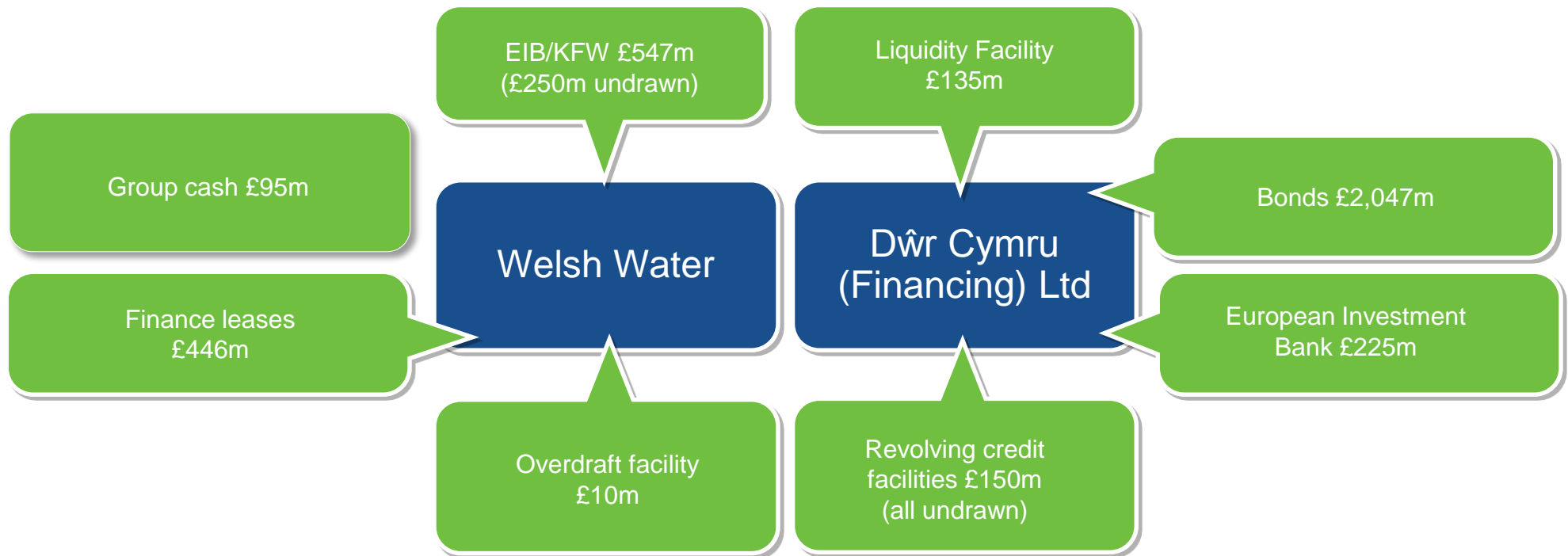
Net interest payable

12 months to 31 March (£m)	2017	2016
Fixed rate bonds	44	44
Index-linked bonds	41	40
EIB and KfW loans	3	4
Finance leases	3	5
RPI PAYG inflation swaps	15	10
Fixed interest swap	10	10
Financial guarantee fees	4	4
Other interest costs	3	1
RPI indexation of bonds & EIB loans	31	14
Interest receivable	(4)	(6)
Net interest payable	150	126
Pension scheme interest charge	-	1
Interest capitalised (IAS 23)	(10)	(4)
Total per IFRS accounts	140	123

- Indexation charge based on higher RPI of 1.9% (2016: 1%)
- Average nominal interest cost of 5.1% (2016: 5.0%)
- Indexation of £31m for bonds/EIB loans is split: Bonds £25m and EIB £6m

Overall interest costs are back to the 2015 position of c.£145m

Glas Cymru - financing structure 31 March 2017



*£30m held at Glas Cymru Holdings Cyfyngedig level.

Financing: capital structure as at 31 March 2017

Rating	Class	Type	Interest rate %	Expected maturity	(£m)
A/A2/A (Assured Guaranty wrap)	A1	Fixed	6.015	2028	350
	A4	RPI	3.514	2030	407
	A5	LPI	3.512	2031	132
	A6	Fixed (RPI swap)	(1.35%)	2057	135
A/A2/A	B1	Fixed	6.907	2021	325
	B3	RPI	4.377	2026	197
	B4	LPI	4.375	2027	116
	B5	RPI	1.375	2057	68
	B6	RPI	1.859	2048	317
Bonds					2,047
Finance leases					446
European Investment Bank and KfW					522
Other debt					1
Gross debt					3,016
Accrued interest					54
Cash					(95)
Net debt					2,975

Debt characteristics

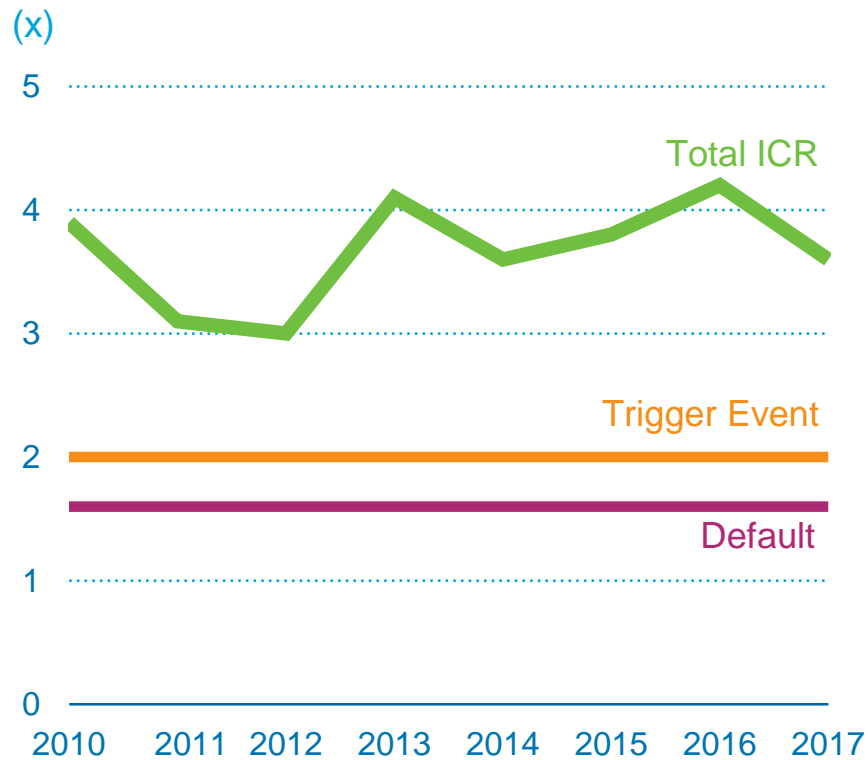
Gross debt at 31 March 2017 (£m)	Fixed	Index-linked	Floating	Total	
Finance leases	65	382	-	447	15%
Bonds	675	1,369	-	2,044	68%
EIB/KfW	-	165	356	522	17%
Local authority debt	-	-	1	1	-
	740	1,917	357	3,014	100%
Swaps - floating to fixed/index linked	192	150	(342)	-	
Gross debt	932	2,067	(15)	3,014	
Percentage	31%	69%	0%	100%	

Reconciliation to Investor Report:

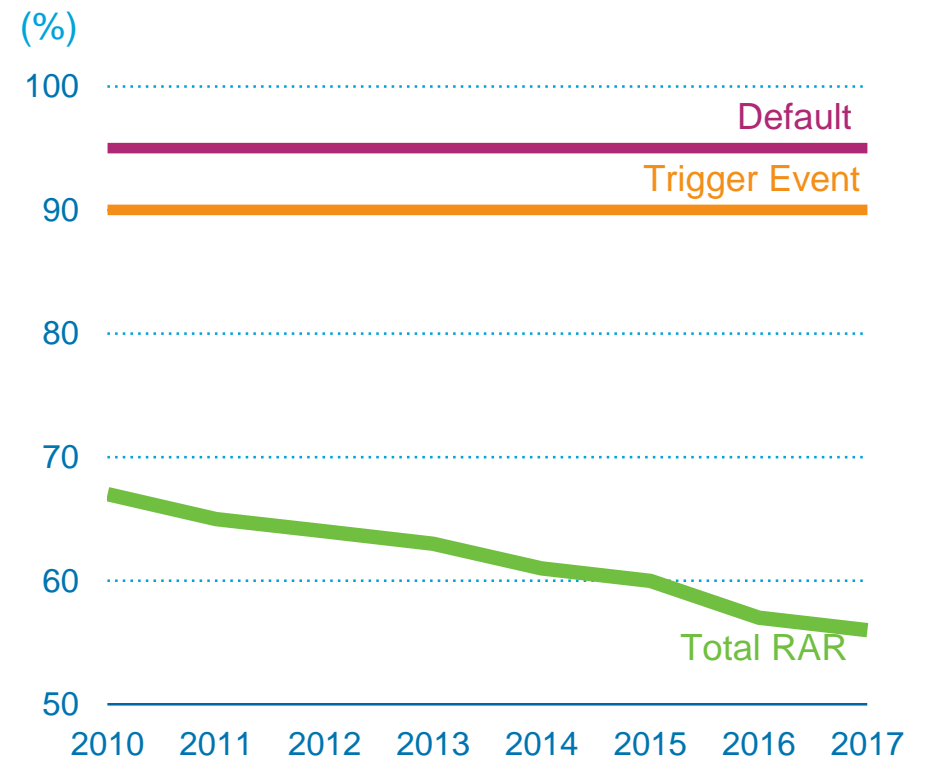
Gross debt as above	3,014
Accrued interest	56
Cash	(95)
Net debt as at 31 March 2017	2,975

Financial covenants - interest cover and gearing

Interest cover ratios (ICR)



Gearing (RAR)



Fair market value movements on swaps

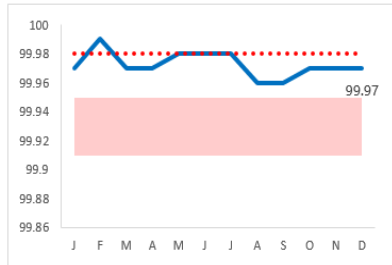
Derivatives as at (£m)	31/3/2017	31/3/2016	Movement
Floating to fixed rate interest rate swaps	(94)	(91)	(3)
Index-linked swaps	(382)	(314)	(68)
Energy Swaps	(1)	(9)	8
Total MTM	(477)	(414)	(63)

Notes:

1. Swap contracts are with Royal Bank of Scotland, HSBC and Lloyds
2. None of the swap contracts have break clauses or accretion paydowns
3. In addition to the MTM values above, there is an additional liability for cumulative indexation of £35m (2016:£33m) relating to the A6 bond swap

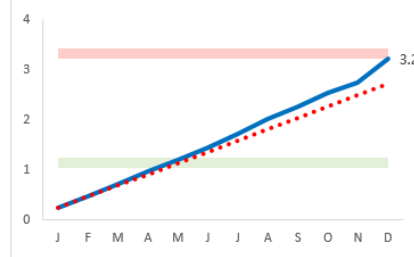
Ofwat ODI's (outcome delivery incentives) Charts for the year

A1b - Safety of Drinking Water (Actual MZC)



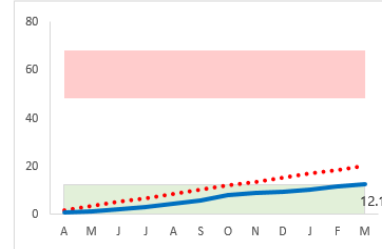
Penalty: £2.5m per 0.01% per year within the penalty zone.
Maximum £10m pa "in year" penalty.

A2 - Customer Acceptability (appearance, taste & odour)



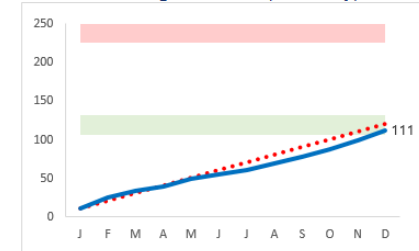
Penalty/Reward: £930k per 0.1 contacts per 1,000 population.
A Maximum of £1.86m pa "in year" penalty or reward.

A3 - Reliability of Supply



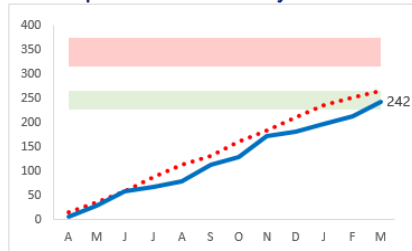
Penalty/Reward: £0.195m per minute.
Reward Max £2.34m pa "in the year"
Penalty Max £3.9m pa "in the year".

B3b - Preventing Pollutions (Cat 3 only)



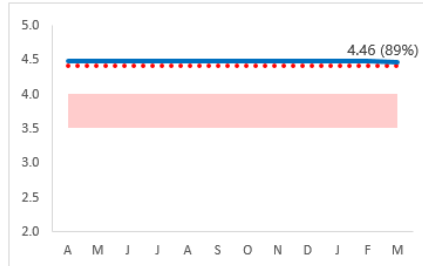
Penalty: £0.400m per incident (Max of £10m pa)
Reward: £0.047m per incident (Max of £1.175m pa).

D3 - Properties flooded in the year



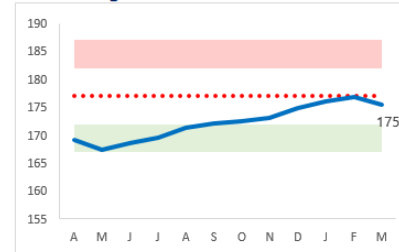
Penalty: £0.161m per property
Reward: £0.062m per property.

D4b - Non Household Customer Satisfaction

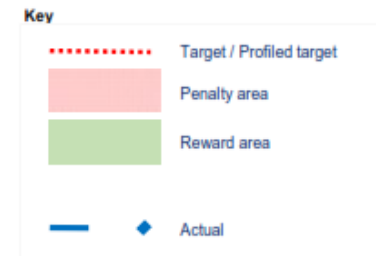


Penalty: £1m per 0.1 points scored (Max £5m pa).
[Opinion Research Services commissioned to carry our survey]

F2 - Leakage



Penalty: £1.84m per MI/d (Max £9.2m penalty pa)
Reward: £0.92m per MI/d (Max £4.6m reward pa).



Notes:

1. Rewards of £0.940m on 'preventing pollutions'.
2. Reward of £1.86m for properties flooded.

Comparative credit ratings

Company	Moody's	S&P	Fitch
Welsh Water	A2	A	A
Anglian	A3	A-	A
Northumbrian	Baa1 (neg)	BBB+	N/R
Severn Trent	A3	BBB+	N/R
Southern	Baa1 (neg)	A-	A-
South West	N/R	N/R	N/R
Thames	A3	A-	N/R
Wessex	A3	BBB+	A-
Yorkshire	Baa1	A-	A

Source: Bloomberg – 10 July 2017

Note: Anglian, Southern, Thames and Yorkshire – senior bonds only

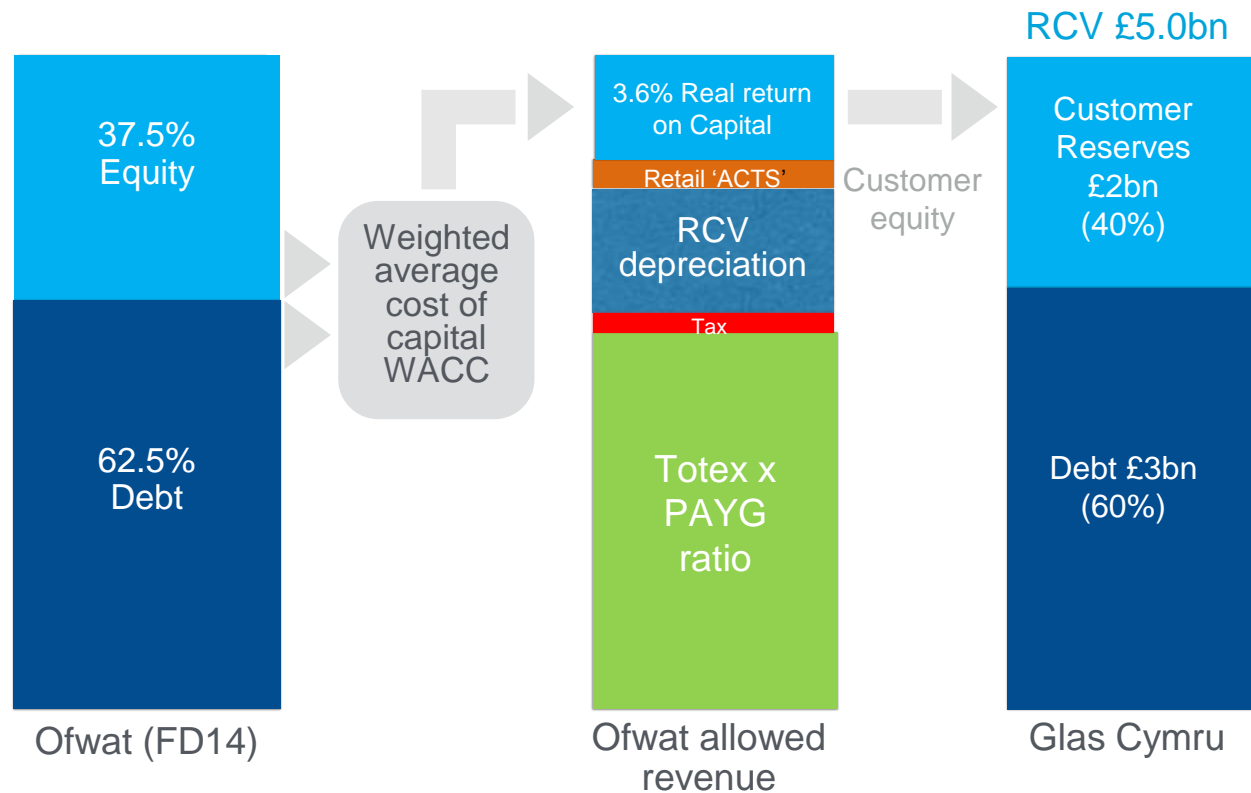
Financing activity 2016/17

17 May 2016	Final £70m drawdown of £230m 2014 EIB facility (15 year, index-linked – amortising after year 5)
20 January 2017	EIB £250m loan facility signed - available for drawdown within 24 months.
7 April 2017	£135m 364 day liquidity facility renewed. 4 banks participating
5 May 2017	£60m drawdown of KfW loan facility (10 year floating – amortising after year 5)

Cost of capital and Ofwat building blocks

Final Determination	
Total equity market return	6.75%
Real risk-free rate	1.25%
Equity risk premium	5.5%
Gearing (Net Debt/RCV)	62.5%
Asset beta	0.30
Equity beta	0.80
Cost of equity (post-tax)	5.65%
Ratio of embedded to new debt	75:25
Cost of new debt	2.00%
Cost of embedded debt	2.65%
Allowance for debt fees	0.10%
Overall cost of debt	2.59%
Appointee WACC	3.74%
Deduction for retail margin	0.14%
Wholesale WACC	3.60%

Source: Ofwat publication





Thank you